

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**INTERNAL CONTROLS AND COMPLIANCE
WITH LAWS AND REGULATIONS FOR THE
FY 1996 FINANCIAL STATEMENTS OF THE
DEFENSE SECURITY ASSISTANCE AGENCY**

Report No. 97-171

June 19, 1997

Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
DIFS	Defense Integrated Financial System
DSAA	Defense Security Assistance Agency
FMS	Foreign Military Sales
IG	Inspector General
OMB	Office of Management and Budget
OUSD	Office of the Under Secretary of Defense



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June 19, 1997

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE SECURITY ASSISTANCE
AGENCY**

**SUBJECT: Audit Report on Internal Controls and Compliance with Laws and
Regulations for the FY 1996 Financial Statements of the Defense Security
Assistance Agency (Report No. 97-171)**

We are providing this report for your information and use. Financial statement audits are required by the Chief Financial Officers Act of 1990, as amended. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General, DoD, to report on the adequacy of internal controls and compliance with laws and regulations and express an opinion on the fairness of the presentation of the FY 1996 financial statements.

We provided a draft of this report to you on April 16, 1997. Because this report contains no recommendations, management comments were not required and none were received. Therefore, we are publishing this report in final form.

We were unable to render an opinion on the consolidated financial statements of the Defense Security Assistance Agency because the Foreign Military Sales Trust Fund statement of operations and changes in financial position, as of September 30, 1996, reported zeros for all revenue and expense accounts. Also, audit trails were not readily and easily accessible to allow review of disbursements and accounts payable. Our disclaimer of opinion was based on the consolidated financial statements as of September 30, 1996. Our disclaimer of opinion and the financial statements audited are included in Appendix D.

We appreciate the courtesies extended to the audit staff. If you have any questions about this audit, please contact Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172) or Mr. Garry A. Hopper, Audit Project Manager, at (703) 604-9612 (DSN 664-9612). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97-171
(Project No. 6LG-2006.02)

June 19, 1997

Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the Defense Security Assistance Agency

Executive Summary

Introduction. The Defense Security Assistance Agency (DSAA) administers the security assistance program under the Foreign Assistance Act of 1961, as amended; the Arms Export Control Act, as amended; and other statutes, Executive orders, and directives. The September 30, 1996, consolidated financial statements of DSAA reported \$31.8 billion of assets. Of that amount, \$18.97 billion was for the Foreign Military Sales Trust Fund, \$7.68 billion for the Foreign Military Loan Liquidating account, \$2.95 billion for the Foreign Military Financing Direct Loan Financing account, \$353 million for the Special Defense Acquisition Fund, and \$1.82 billion for five other programs. DSAA, as the funds manager, is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds. The Defense Finance and Accounting Service, Denver Center is responsible for establishing and maintaining the accounting system for the funds managed by DSAA.

Audit Objectives. The primary audit objective was to express an opinion on whether the financial statements were presented fairly in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. As part of that process, we reviewed internal controls and compliance with laws and regulations and tested accounting transactions to validate the effectiveness of accounting controls. An additional objective was to provide positive assurance on compliance with laws and regulations for the items tested, and provide negative assurance on compliance with laws and regulations for items not tested. Additionally, as required by Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, we followed up on corrective actions resulting from previous audits of the financial statements of DSAA.

Disclaimer of Opinion. We were unable to render an opinion on the DSAA consolidated financial statements for FY 1996 because significant deficiencies identified in our audit of the FY 1995 financial statements still existed. The deficiencies in the accounting systems and control procedures did not provide reasonable assurance that financial statements were reliable. Specifically, the Foreign Military Sales Trust Fund statement of operations and changes in financial position, as of September 30, 1996, reported zeros for all revenue and expense accounts. Also, audit trails were not readily and easily accessible to allow review of disbursements and accounts payable. See Appendix D for the audit opinion and the financial statements and Appendix E for current status of corrective actions on the prior audit report.

Internal Controls. The internal control structure was not effective in accounting for and managing resources, ensuring compliance with laws and regulations, and ensuring that the financial statements were free of material misstatements. Although we noted improvements in the financial reporting of accounts receivable and controls over electronic data processing, management actions were still needed to improve the accounting for revenues and expenses, the management of cash disbursements and unmatched disbursements, the support of general ledger by subsidiary accounts, and the recording and reporting of accounts payable. See Part I.A. for a discussion of internal controls results.

Compliance With Laws and Regulations. Instances of noncompliance with laws and regulations that materially affected the reliability of the statement of financial position for the DSAA continue to exist. Those issues pertain to accounting for the Foreign Military Sales Trust Fund revenues and expenses, managing funds disbursed, recording and reporting accounts payable, and implementing the Management Control Program. See Part I.B. for a discussion of compliance results.

Summary of Recommendations. This report contains no recommendations because the issue of reporting revenues and expenses of the Foreign Military Sales Trust Fund was discussed in numerous meetings with representatives from the Office of Management and Budget, the General Accounting Office, and the Office of the Under Secretary of Defense (Comptroller). As a result of those meetings, the Office of Management and Budget is expected to direct DoD to report revenues and expenses of the Foreign Military Sales Trust Fund as required by Office of Management and Budget Bulletin No. 94-01. Additionally, until the Defense Finance and Accounting Service has converted to a new accounting system, the issue of readily and easily accessible audit trails will remain an issue. The Defense Finance and Accounting Service expects to incrementally convert to a new accounting system by FY 2003.

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Part I - Audit Results

Audit Background and Objectives

Audit Background. The Chief Financial Officers Act of 1990, Public Law 101-576, requires executive departments and agencies to prepare financial statements for each of their trust funds, revolving funds, and commercial activities. The Chief Financial Officers Act of 1990 also requires inspectors general to audit or arrange for the audit of all financial statements prepared under the Chief Financial Officers Act of 1990. The resulting audit reports must include an audit opinion of the statements, a report on the adequacy of internal controls of the reporting entity, and a report on compliance with laws and regulations that could have a material effect on the financial statements. The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, prescribes the responsibility of management regarding the financial statements, internal controls, and compliance with laws and regulations.

The consolidated financial statements of the Defense Security Assistance Agency (DSAA) were comprised of nine funds with total assets of \$31.8 billion. We reviewed four of the nine funds, totaling \$30 billion or 94.2 percent of the September 30, 1996, DSAA financial statements. Specifically, we reviewed the Foreign Military Sales (FMS) Trust Fund of \$18.97 billion, the Foreign Military Loan Liquidating account of \$7.68 billion, the Foreign Military Financing Direct Loan Financing account of \$2.95 billion, and the Special Defense Acquisition Fund of \$353 million.

Table 1 shows the DSAA balances of assets and liabilities reported as of September 30, 1996.

Table 1. DSAA Consolidated Statement of Financial Position	
<u>Assets</u>	<u>Account Balance (billions)</u>
Fund Balances With Treasury	\$ 8.3
Cash	8.6
Accounts Receivable	5.2
Credit Program Receivables	8.0
Others	<u>1.7</u>
Total Assets	\$31.8
 <u>Liabilities and Equity</u>	
Accounts Payable	\$ 1.1
Debts	4.4
Others *	23.7
Equity	<u>2.6</u>
Total Liabilities	\$31.8

*Unearned Revenue - Advances from public for the FMS Trust Fund, totaling \$13.4 billion, was included.

Audit Objectives. The primary audit objective was to express an opinion on whether the financial statements were presented fairly in accordance with Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. As part of that process, we reviewed internal controls and compliance with laws and regulations and tested accounting transactions to validate the effectiveness of accounting controls. An additional objective was to provide positive assurance on compliance with laws and regulations for the items tested, and provide negative assurance on compliance with laws and regulations for items not tested. Additionally, as required by OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, we followed up on corrective actions resulting from previous audits of the financial statements of DSAA

Audit Results

(Appendix E). See Appendix A for a discussion of the scope and methodology, Appendix B for a discussion of prior audit coverage related to the audit objectives, and Appendix C for a discussion of the three other funds we reviewed.

Part I.A. - Review of Internal Control Structure

Introduction

Management Responsibilities. The DSAA and Defense Finance and Accounting Service (DFAS), Denver Center (DFAS-Denver) management are jointly responsible for establishing and maintaining a management control structure. DoD Financial Management Regulation 7000.14, volume 15, "Security Assistance Policy and Procedures," March 1993 (DoD Financial Regulation, volume 15), states that DFAS-Denver is responsible for conducting an annual review of the DoD security assistance accounting system, including the development of an annual Management Control Program to test internal controls and measure the quality of DoD security assistance accounting systems and the operations of DoD organizations performing security assistance functions. Although DSAA is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds, DFAS-Denver is responsible for establishing and maintaining the accounting system¹ for the funds DSAA manages.

Control Structure Elements and Objectives. The internal control structure for management's accounting of financial information comprises the accounting and related systems, control environment, and control procedures. The objectives of a management control structure are to provide management with reasonable but not absolute assurance that the following are met.

- o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

- o Funds, property, and other assets are safeguarded against loss, misappropriation, unauthorized use, and waste.

- o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and an effect on any other laws and regulations that OMB, entity management, or the Office of the Inspector General (IG), DoD, have identified as being significant for which compliance can be objectively measured and evaluated.

- o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

- o Performance measures exist and are adequate to enable the manager of the fund to identify and correct problems.

¹An accounting system includes the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities.

Controls Reviewed. To express an opinion on the financial statements for the year ended September 30, 1996, we reviewed the internal control structure for the Fund Balances with Treasury², Cash, Accounts Receivable, Accounts Payable, and Unearned Revenue - Advances From Public (unearned revenue) of the FMS Trust Fund. For the Foreign Military Loan Liquidating account and Foreign Military Financing Direct Loan Financing account we reviewed Fund Balances With Treasury, Accounts Receivable, Credit Program Receivables/Related Foreclosed Property, Other Federal (intragovernmental) Assets, Debts, and Other Federal (intragovernmental) Liabilities. We were unable to review the Statement of Operations and Changes in Net Position for the FMS Trust Fund because that statement reported zeros for all accounts. We did not review any accounts related to the Special Defense Acquisition Fund because of the planned disestablishment of the fund.

Reportable Conditions Not Noted. Our review provides a reasonable basis for conclusion on the internal control structure and compliance with laws and regulations as they relate to the financial statements of DSAA. Our review would not necessarily disclose all internal control and compliance reportable conditions that might also be considered material weaknesses.

Reportable Conditions and Material Weaknesses. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the management control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure accurate and reliable financial information needed to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the management control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and employees would not detect it within a timely period in the normal course of performing their functions. Material internal control weaknesses existed in the internal control structure at DFAS-Denver.

²The FMS Trust Fund had two cash accounts in the Statement of Financial Position, Fund Balances With Treasury, which is cash with the U.S. Treasury; and Cash, which is cash on deposit with commercial banks and the Federal Reserve Bank.

Accounting and Management Controls

Deficiencies identified in the FY 1995 audit of the FMS Trust Fund continued to exist. Specifically, the FMS Trust Fund statement of operations and changes in net position, as of September 30, 1996, reported zeros for all revenue and expense accounts, readily and easily accessible audit trails for disbursements and liabilities did not exist, and accounts payable and unearned revenue were not reconciled. Those deficiencies continued to exist because the DoD Financial Regulation did not allow revenue and expense recognition, the accounting systems for disbursements and liabilities did not maintain transaction identifiers that allowed accounting transactions to be traced to the source documents and the reverse, subsidiary ledgers were not maintained, and management controls did not enforce the requirement to reconcile accounts payable and unearned revenues. As a result, the FY 1996 financial statements for the DSAA were noncompliant with OMB Bulletin No. 94-01, and DoD Financial Management Regulations, and the statements may be materially misstated.

Regulatory Requirements

OMB Reporting Requirements. The OMB Bulletin No. 94-01 requires Federal agencies to prepare annual financial statements, which includes a statement of financial position and a statement of operations that reports financing sources (including revenues), expenses, gains, and losses. The bulletin allows a variance in implementing the guidance if the operations of the agency or the program warrant a variance to allow the financial statements to reflect more fully financial operations and the condition to improve disclosure.

DoD Guidance. DoD Financial Management Regulation 7000.14, volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, (DoD Financial Regulation, volume 1), Key Accounting Requirement No. 8, states that an adequate audit trail enables the tracing of a transaction from its source to the resulting record or report and the reverse. The accounting system must provide audit trails to trace transactions from source documents, original input, other systems, system-generated transactions, and internal allocation transactions through the system; to trace source documents through successive levels of summarization to financial statements and the reverse; and to identify changes made to system parameters and tables that affect the processing of any financial transactions. The accounting system should also provide the ability to select items for review based on user defined criteria.

Accounts Payable Reporting and Reconciling Requirements. DoD Financial Management Regulation 7000.14, volume 4, "Accounting Policy and Procedures," January 1995, (DoD Financial Regulation, volume 4), establishes the accounting policy for accounts payable. It requires that amounts recorded as

payable be supported with proper documentation that clearly shows the basis for the amounts recorded and the terms by which payments are to be made. The balances in the accounts payable are to be reconciled to the supporting documentation at least annually.

Unearned Revenue Reporting and Reconciling Requirements. DoD Financial Regulation, volume 15, requires DFAS-Denver to maintain a subsidiary ledger that is reconciled monthly with the general ledger, in addition to providing an audit trail for all posting in the system. Also, it requires that the unearned revenue account include subsidiary ledgers for each of the FMS surcharges. To provide an audit trail of all posting, the subsidiary ledgers are to be maintained in the Defense Integrated Financial System (DIFS). Extracts of the ledgers are to be made available to the security assistance program managers as required for management purposes.

Accounting for Revenues and Expenses

Deficiencies relating to accounting for revenues and expenses identified in the FY 1995 audit of the FMS Trust Fund continued to exist. Specifically, the FMS Trust Fund statement of operations and changes in net position, as of September 30, 1996, reported zeros for all revenues and expense accounts. DFAS-Denver did not account for revenues and expenses and related FMS surcharges in the FMS Trust Fund financial statements for FY 1996, as required by OMB Bulletin No. 94-01 because DoD Financial Regulation, volume 15, did not allow revenue and expense recognition. As a result, the FY 1996 financial statements for the DSAA did not comply with OMB Bulletin No. 94-01 and the statements may be materially misstated. The following is a synopsis of the FY 1995 audit report findings and recommendations and our FY 1996 followup audit.

FY 1995 Reporting of Revenues and Expenses. The IG, DoD, Report No. 96-187, "Internal Controls and Compliance with Laws and Regulations for the FY 1995 Financial Statements of the Defense Security Assistance Agency," June 28, 1996, reported that DoD policy did not permit DFAS-Denver to account for revenues and expenses of the FMS Trust Fund. As of September 30, 1995, the statement of operations and changes in net position reported zeros for all revenue and expense accounts. DSAA earned revenues and incurred expenses of at least \$10 billion each, for the FMS Trust Fund during the fiscal year, which should have been reported. The FMS customers made payments in advance of receipt of the Defense articles and services and revenues were earned when delivery of a service or item was made. Expenses were incurred when payments were made, or when a liability was established for acquired Defense articles or services. However, instead of recognizing revenues and expenses in accounts in the statement of operations and changes in net position, DFAS-Denver recorded the effect of revenue and expense transactions (such as changes in unearned revenue account) in the statement of

Accounting and Management Controls

financial position accounts. As a result, FMS Trust Fund financial statements did not comply with OMB Bulletin No. 94-01, and there was no assurance that those statements presented fairly the financial condition of the fund.

The IG, DoD, Report No. 96-187 recommended that the Under Secretary of Defense (Comptroller) and Chief Financial Officer revise DoD Financial Regulation, volume 15, to require recognition and accounting for the revenues and expenses of the FMS Trust Fund or to obtain a waiver from compliance with the OMB Bulletin No. 94-01. In its comments on Report No. 96-187, the Office of the Under Secretary of Defense (Comptroller) (OUSD[Comptroller]) agreed to seek a waiver from compliance with OMB Bulletin No. 94-01. The OUSD(Comptroller) also agreed to, at a minimum, report revenues and expenses for FMS surcharges³ and to disclose the loss or profit from the attrition surcharge account in the financial statements. See Appendix E for the status on followup of corrective actions on the prior audit report.

FY 1996 Reporting of Revenues and Expenses. The September 30, 1996, statement of operations and changes in net position reported zeros for all revenue and expense accounts; although, DSAA earned revenues and incurred expenses of at least \$14 billion each, for the FMS Trust Fund during the fiscal year, which should have been reported. Instead of recognizing revenues and expenses in accounts in the statement of operations and changes in net position, DFAS-Denver recorded the affect of revenue and expense transactions as unearned revenue under the liabilities account in the statement of financial position.

The OUSD(Comptroller) did not revise the regulation or obtain a waiver to exclude revenues, expenses, and net position from the DSAA financial statements. Although, the OUSD(Comptroller) agreed to obtain a waiver from compliance with OMB Bulletin No. 94-01, it requested advice on the appropriateness of excluding the DSAA financial statements from the DoD consolidated statements. In a September 19, 1996, memorandum, the OUSD(Comptroller), requested advice from OMB on the appropriateness of excluding the DSAA financial statements from the DoD consolidated financial statements. On December 11, 1996, OUSD(Comptroller) issued another memorandum to OMB stating that the DSAA financial statements would not be included in the DoD consolidated financial statements; instead, DoD would issue stand-alone financial statements for DSAA. On January 28, 1997, an OMB memorandum to the OUSD(Comptroller) stated that FY 1996 DSAA financial statements should be included in the FY 1996 DoD consolidated financial statements.

FY 1996 Reporting of FMS Surcharge. In response to IG, DoD, Report No. 96-187, the OUSD(Comptroller) agreed to report revenues and expenses for FMS surcharges. FMS surcharges were not reported as Government equity in the FMS Trust Fund financial statements for FY 1996. In providing FMS

³The FMS surcharge includes administrative; transportation; contract administration service; General Services Administration packing, crating, and handling; and attrition surcharges.

goods and services, the U.S. Government incurs costs that are directly identifiable to a country, case, and line in a letter of offer and acceptance, and recognizes surcharges that are charged based on a predetermined standard rate. The funds recovered through standard surcharge rates were expected to approximate, but not equal, the actual costs incurred and, therefore, a difference between the cost charged to the customer and the cost incurred by the U.S. Government is expected.

In a November 27, 1996, meeting with OMB and the IG, DoD, the OUSD(Comptroller) acknowledged that amounts reported in the FMS Trust Fund surcharge accounts were owned by the U.S. Government. The OUSD(Comptroller) September 19, 1996, memorandum, stated that revenues and expenses associated with amounts collected for and dispensed from the administrative surcharge account of the FMS Trust Fund would be reported as an entity asset. However, the OUSD(Comptroller) December 11, 1996, memorandum, stated that the FY 1996 FMS Trust Fund statements would not report the surcharge assets because the OUSD(Comptroller) and the DFAS-Denver determined that reporting FMS surcharges as revenues would require manual intervention and extraction of financial data. That memorandum also stated that DoD would disclose surcharge equity for the FY 1997 FMS Trust Fund statements.

Because revenues, expenses, and U.S. Government equity in the surcharge accounts were not accounted for in the FMS Trust Fund financial statements, the statement of operations and changes in net position, as of September 30, 1996, once again reported zeros for all revenue and expense accounts. As a result, those financial statements were noncompliant with OMB Bulletin No. 94-01, and the fairness of the statements on the financial condition of the FMS Trust Fund could not be assured.

Accessibility of Audit Trails

Deficiencies relating to readily and easily accessible audit trails for disbursements and liabilities identified in the FY 1995 audit of the FMS Trust Fund continued to exist. The accessibility deficiency existed because the accounting systems for disbursements and liabilities did not maintain transaction unique identifiers that allowed for accounting transactions to be traced to the source documents and the reverse, as required by DoD Financial Regulation, volume 1 and DoD Financial Management Regulation 7000.14, volume 5, "Disbursing Policy and Procedures," December 1993, revised May 1996, (DoD Financial Regulation, volume 5). Also, subsidiary ledgers relating to liabilities were not maintained as required by DoD Financial Regulation, volumes 4 and 15. As a result, we were unable to validate the accuracy of the funds disbursed, accounts payable, and unearned revenue reported by DFAS-Denver in the FMS Trust Fund statement of financial position. The following is a synopsis of the FY 1995 audit report findings and recommendations and our FY 1996 followup audit.

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FY 1995 Disbursement Review. For the FY 1995 financial statements, IG, DoD, Report No. 96-187, reported that DFAS-Denver did not have reasonably accessible audit trails to track about \$13.4 billion of disbursements. Audit trails were not readily and easily accessible because the DIFS did not have disbursement voucher numbers and dates traceable to source records. As a result, DFAS-Denver internal controls were not adequate to provide reasonable assurance that the \$5.5 billion reported in the Fund Balances With Treasury was accurate; therefore, that account balance may be materially misstated. In its comments on Report No. 96-187, OUSD(Comptroller) acknowledged the need for transaction unique identifiers, stating that the required changes to the applicable subsystems for the DIFS supporting feeder would be made to retain the disbursement voucher number. That action was to be completed by September 30, 1996. See Appendix E for the status of followup corrective actions on the prior audit report.

FY 1996 Disbursement Review. As of January 31, 1997, the system managers at DFAS-Denver had not modified completely the applicable DIFS subordinate accounting systems to retain the disbursement voucher number and date. Not all disbursement transactions in the DIFS accounting system contained a transaction-unique identifier. As a result, manual inquiries of the installation level system and manual examination of accounting reports was required. A transaction unique identifier is critical to providing support for financial data maintained by the DIFS accounting system because the system receives data from numerous subordinate accounting systems, including the Case Management Control System, the Central Procurement Accounting System, and the Mechanization of Contract Administration Services. Those subordinate accounting systems maintain the transaction level accounting, retaining the needed reference to source documents; but they only report and forward summary data to the intermediary level or Military Department level. The Military Department level reports only the summary data to DIFS. Therefore, at each subordinate level, transaction data are forwarded only at the level needed to meet the reporting requirements of that level.

For our review of the FY 1996 disbursements, we judgmentally sampled disbursements at seven disbursing stations to test the validity of the \$4.2 billion FMS Trust Fund. To verify our sample, we manually searched disbursement voucher numbers based on amount, country code, case, and line item. During our voucher research, the process of trial and error was used to identify disbursement voucher number. That process greatly increased time, resources, and sample size. Also, because DIFS is a summary level accounting system, more than one disbursement voucher number was identified for some selected disbursement transactions. For example, a sample size of 92 transactions selected for review for one Army disbursing station generated 352 vouchers requiring verification. Accordingly, our original sample of 612 items for review increased to 1,574 items, a 157 percent increase in sample size. Because supporting documents for 1,574 items were maintained at numerous command and installation sites, we were unable to readily obtain supporting documents (such as vendor invoice and receiving reports) for 362 items, about 35 percent of the vouchers identified for review. Table 2 shows the increased sample size and the items that had unknown supporting documentation.

Table 2. FMS Trust Fund Disbursements - Increased Sample

<u>Disbursing Station</u>	<u>Original Sample Transactions¹</u>	<u>Number of Vouchers Generated</u>	<u>Percent of Increase</u>	<u>Voucher Support Unknown</u>
Army				
6436	92	352	283	84
6469	100	109	9	18
Navy				
8538	84	177	111	40
8347	84	80	(5)	77
Air Force				
5030	93	308	231	113
8541	74	139	88	2
DFAS-DE ²	<u>85</u>	<u>409</u>	381	<u>28</u>
Total	612	1,574		362

¹Original sample transactions (679 - 67) included samples only where source documents were identified. The 67 sample transactions were not included because source documents could not be identified.

²Disbursements made by DFAS-Denver. No disbursing station number was assigned.

Voucher numbers, as unique identifiers of transactions, should represent the audit trail leading to the documents supporting the disbursement. In addition to assisting the auditors during the financial statement review, the audit trails are necessary for the financial managers' day-to-day monitoring of the accounting system. Our sample verification did not provide reasonable assurance that the FMS Trust Fund was correct and that the Fund Balances With Treasury account was free from material misstatements and errors for the FY 1996 financial statements because supporting documents were maintained at numerous locations.

Undistributed Disbursements. The DFAS-Denver did not have readily and easily accessible audit trails to track undistributed transactions⁴ as identified in IG, DoD, Report No. 96-187. That condition existed because disbursing activities had not assigned unique identifiers, such as valid FMS country codes, case, and FMS surcharge accounts to the disbursed amounts. Without a unique identifier, we could not verify and DFAS-Denver financial managers could not follow up and research problem disbursements. As a result, DFAS-Denver could not account for about \$209.7 million in disbursements in its FY 1996 financial statements. Because \$209.7 million in undistributed disbursements still existed, we could not provide reasonable assurance that the Fund Balances With Treasury were correct and free of material misstatements.

FY 1995 Undistributed Disbursements Review. For the FY 1995 financial statements, IG, DoD, Report No. 96-187 reported that DFAS-Denver did not have adequate controls or readily and easily accessible audit trails

⁴Undistributed disbursements (country codes 62-65) consist of disbursements that cannot be identified to an FMS country or FMS surcharge.

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for \$370.5 million of undistributed disbursements. Disbursements were made from the FMS Trust Fund in response to requests by the Military Departments and the State Department. DFAS-Denver, however, was unable to identify the specifics of \$370.5 million of disbursements, to include voucher numbers and source, or how long those disbursements were outstanding. Neither could DFAS-Denver identify those undistributed disbursements to a specific FMS country or surcharge account. Also, some of the assigned codes did not represent a bona fide country or surcharge account. DFAS-Denver was responsible for the FMS Trust Fund cash management; however, DFAS-Denver stated that it did not emphasize the research and follow up of undistributed disbursements because often they were a result of a timing difference and would self-correct within a few months. In its comments on the report, the OUSD(Comptroller) stated that policy would be provided to disbursing activities directing that all FMS disbursements be identified to a valid FMS customer, case, or surcharge account. See Appendix E for the status of followup corrective actions on the prior audit report.

FY 1996 Undistributed Disbursements Review. Our review of the FY 1996 FMS undistributed disbursements showed that DFAS Headquarters had issued several policy memorandums to disbursing organizations requiring disbursing officers to reconcile daily requests for expenditure authority by FMS country and case to FMS Trust Fund disbursements by country and case. Additionally, those policy memorandums stated that each disbursing station office was required to report each month to its cognizant center a reconciliation statement showing approved expenditure authority requests by the FMS country and amounts reported on DD Form 1329, "Statement of Transactions," with the FMS Trust Fund by country and case identifiers. Also, each DFAS center was required to pass those reconciliations to DFAS-Denver for comparison with data from DIFS with those reports submitted by the disbursing station symbol number.

In addition to the issuance of the policy memorandums, DFAS-Denver initiated a system change to the contract payment notice function of the Central Procurement Accounting System. In January 1996, the contract payment notice systemic problem was corrected and DFAS-Denver began to research and delete duplicate unmatched disbursements. As a result, Air Force undistributed disbursements decreased from \$227.1 million on September 30, 1995, to \$45.4 million on September 30, 1996, an 80-percent reduction. The Navy and other undistributed disbursement balances, however, decreased only from \$110.7 million to \$102.9 million, while the Army undistributed disbursement balances increased from \$32.7 million to \$61.4 million. DFAS-Denver management could not explain the reason for the increase in the Army undistributed disbursement balance.

Liabilities Audit Trail. The FMS Trust Fund accounting system did not record all valid accounts payable transactions and maintain readily and easily accessible audit trails as identified in IG, DoD, Report No. 96-187. Specifically, accounts payable were not reported as required by OMB Bulletin No. 94-01, and subsidiary ledgers were not maintained. During FY 1996, we noted some

improvement in the accounts payable. However, management actions were still needed to improve the recording and reporting of the accounts payable. As a result, the accounts payable balances may be materially misstated.

FY 1995 Accounts Payable Review. The IG, DoD, Report No. 96-187, reported that DFAS-Denver did not have readily and easily accessible audit trails to track the Accounts Payable - Transactions with Federal (Governmental) Entities, Accounts Payable - Transactions with Non-Federal (Governmental) Entities, and Unearned Revenue - Advances from Public - Other Non-Federal (Governmental) Liabilities. The audit trail was not readily and easily accessible because DFAS-Denver did not ensure inclusion of the Navy accounts payable in DIFS, maintain subsidiary ledgers for the accounts payable by vendor and the unearned revenue account, and perform monthly reconciliation with the general ledger. As a result, DFAS-Denver internal controls were not adequate to provide reasonable assurance that the \$182 million of accounts payable, and \$13.1 billion of unearned revenue were accurate; therefore, those account balances may be materially misstated. In its comments on IG, DoD, Report No. 96-187, the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) agreed to take corrective action and report the Navy's FMS accounts payable to DFAS-Denver by July 30, 1996. Additionally, the OUSD(Comptroller) agreed to change DoD Financial Regulation, volume 15, to recognize vendor identification at an installation level and beginning June 1996, unearned revenue would be reconciled monthly with subsidiary data. See Appendix E for the status of followup corrective actions on the prior audit report.

FY 1996 Reporting of Navy Accounts Payable. Accounts payable of the FMS Trust Fund were not reported as required by OMB Bulletin No. 94-01. Specifically, adjustments for Navy accounts payable related to FMS were not made to the statement of financial position but included only as a footnote for FY 1996. As of January 31, 1997, the Navy system managers had not completely modified the Navy accounting systems to segregate FMS accounts payable from the U.S. Navy accounts payable. That condition occurred because the Navy did not have an accounting system that would segregate FMS accounts payable from U.S. Navy accounts payable. DFAS-Denver is making changes to the reporting process that should be in effect by early FY 1997. Specifically, DFAS-Denver will report the estimated Navy FMS accounts payable in the monthly trial balance. For FY 1996, DFAS-Denver estimated Navy FMS accounts payable to be \$151.5 million and disclosed the estimated amount in the financial statement as a footnote instead of making an adjustment to the statement of financial position for the FMS Trust Fund.

FY 1996 Accounts Payable Review. The DFAS-Denver did not have readily and easily accessible audit trails to track accounts payable balances from DIFS to the subordinate Military Department and installation level accounting systems, and finally to the supporting source documents because subsidiary ledgers were not maintained by vendor identification. The OUSD(Comptroller) agreed to change DoD Financial Regulation, volume 15, to allow for an audit trail to show vendor identification at an installation level. That audit trail is required to be able to track and verify the origin of the data.

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For FY 1996, we could not determine the validity of the Army and Air Force FMS accounts payable because DFAS-Denver did not identify the vendor identification at the installation level. A summary schedule of Accounts Payable - Government and Accounts Payable - Public, by command code, country, and installation level for FY 1996 was not available. The installation level should provide the schedule by vendor. Those schedules are needed for reconciling with DIFS or the trial balance. Because DFAS-Denver did not promptly provide the summary schedule by command code and summary by country, we were unable to obtain vendor identification by installation level. As a result, we were unable to validate the accounts payable balances; and the account may be materially misstated.

FY 1996 Unearned Revenue Review. The DFAS-Denver did not have readily and easily accessible audit trails to track Unearned Revenue - Advance from Public - Other Non-Federal (Governmental) Liabilities⁵ because subsidiary ledgers were not maintained. In its comments, the OUSD(Comptroller) stated that subsidiary data already existed to support the unearned revenue account, but agreed to reconcile monthly the unearned revenue account with that subsidiary data. However, the unearned revenue balance was not reconciled. DFAS-Denver added general ledger account 1010 (Cash With Treasury), general ledger account 1100 (cash [Federal Reserve Bank and Commercial Banks]), and subtracted general ledger account 2110 (Accounts Payable) to derive the Unearned Revenue. That was the same audit trail reported in IG, DoD, Report No. 96-187. DFAS-Denver provided the reconciliation worksheet, together with data to support the FY 1996 ending cash balance and journal vouchers for the accounts payable reported in the FY 1996 final trial balance. However, DFAS-Denver was unable to provide the audit trail needed to trace source documents and accounting entries to the mechanized accounting system.

A review of the reconciliation worksheets and supporting data showed that the amount reported for deposits with commercial banks was incorrect. Specifically, a September 30, 1996, deposit of \$7.5 million was not included in the amount reported on the statement of financial position, but was included as a footnote to that statement. With the problems with the commercial bank balance and the inability to perform reasonable audit testing of the accounts payable account, we had no basis to provide reasonable assurance that the unearned revenue balance was correct and that the account was free of material misstatements and errors.

⁵Unearned revenue - advances from the public representing the outstanding balance of advances from sources outside the U.S. Government and should be supported by subsidiary records giving the details of each advance.

Test and Review of Control Procedures

The DFAS-Denver did not maintain effective management control procedures to ensure that the audit trail process was documented and tested, and that accounts payable, and unearned revenue were reconciled as required by DoD policy. Specifically, the documentation and testing of the audit trail was not included as an action item in the DFAS-Denver annual Management Control Program. Additionally, monthly accounts payable and unearned revenue reconciliations were not performed because of problems in retrieving the accounts payable data from the accounting system (DIFS) and unearned revenue subsidiary ledgers were not maintained.

Audit Trails Testing. The DFAS-Denver did not include documentation and testing of the audit trail as an assessable unit in its annual Management Control Program. Although DoD Financial Regulation, volume 1, Key Accounting Requirement No. 8, requires audit trails to be tested or reviewed by DFAS-Denver, that requirement was not enforced. DoD Financial Regulation, volume 15, states that DFAS-Denver is responsible for developing an annual Management Control Program, testing internal controls, and measuring the quality of DoD security assistance accounting systems and operations of the DoD implementing agencies. However, because DFAS-Denver did not enforce documentation and testing of the audit trail, there was no assurance that the Fund Balances With Treasury was free of material misstatements.

Accounts Payable Reconciliation. Accounts payable monthly reconciliations were not performed because of problems in retrieving the accounts payable data from the accounting system (DIFS). The Accounts Payable - Transactions With Federal Entities and the Accounts Payable - Transactions With Non-Federal Entities balances were not reconciled before the preparation of the trial balance, as required by DoD Financial Regulation, volume 4. In its comments on IG, DoD, Report No. 96-187, the OUSD(Comptroller) stated that procedures were changed to ensure reconciliation of accounts payable with the supporting subsidiary data on a regular basis beginning in May 1996. However, DFAS-Denver acknowledged that the monthly reconciliations were not performed because of problems in retrieving the data from DIFS. DFAS-Denver stated that the FY 1996 yearend balance would be reconciled as soon as the data were retrieved. As a result, reconciliation problems identified in FY 1995 still existed.

Unearned Revenue Reconciliation. The DFAS-Denver did not reconcile monthly the unearned revenue with the control account in the general ledger, as required by DoD Financial Regulation, volume 15, because subsidiary ledgers were not maintained. DFAS-Denver contends that because the accounting and reporting for revenues and expenses were not required and the unearned revenue account was a contraaccount, a separate subsidiary ledger was not required. DFAS-Denver also maintains that by reconciling the cash accounts and the accounts payable accounts, unearned revenue is reconciled because those accounts comprise the unearned revenue balance. However, for FY 1996, DFAS-Denver was unable to perform monthly reconciliations and a yearend reconciliation for accounts payable because subsidiary ledgers were not

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maintained. As a result, the balance could not be assured to be free of material misstatements. Recognition of FMS Trust Fund revenues and expenses and the use of a subsidiary ledger would result in the proper accounting and reporting of the unearned revenue account.

Conclusion

Although DFAS-Denver has made some progress in improving the accounting and control deficiencies reported in the FY 1995 DSAA financial statements audit, improvements are still needed. Until the deficiencies identified in the audit of the financial statements of the FY 1995 and FY 1996 DSAA FMS Trust Fund are corrected, we will be unable to render a favorable opinion on the DSAA consolidated financial statements. Specifically, the OUSD(Comptroller) must revise DoD Financial Regulation, volume 15, to allow for the recognition of revenues and expenses for the FMS Trust Fund. DFAS-Denver must provide the auditors with readily and easily accessible audit trails for disbursements and accounts payable, maintain subsidiary ledgers for all general ledger accounts, and reconcile its general ledger monthly. Those deficiencies prevented the accurate compilation of accounting data and the development and presentation of complete, accurate, and reliable financial statements. Until appropriate accounting systems are implemented, favorable audit opinions on financial statements cannot be issued. DFAS expects to incrementally convert to a new accounting system by FY 2003.

We are not making any recommendations in this report because we discussed the issues of reporting revenues and expenses of the FMS Trust Fund in numerous meetings with representatives from OMB, the General Accounting Office, and the OUSD(Comptroller). As a result of those meetings, OMB is expected to direct DoD to report revenues and expenses of the Foreign Military Sales Trust Fund as required by OMB Bulletin No. 94-01. Additionally, until DFAS converts to a new accounting system, readily and easily accessible audit trails for disbursements and liabilities are expected to remain an issue.

Part I.B. - Review of Compliance With Laws and Regulations

Introduction

Management Responsibilities. The DSAA administers the security assistance responsibilities of the Secretary of Defense under the Foreign Assistance Act of 1961, as amended; the Arms Export Control Act, as amended; and other applicable statutes, Executive orders, and directives. DSAA is primarily a policy and management oversight organization; and the Military Departments actually implement and execute the FMS program. DFAS has provided centralized accounting services for DSAA since January 1991. Compliance with laws and regulations is the responsibility of the Chief Financial Officer of DoD; the Director, DSAA; the Director, DFAS; the directors of other Defense agencies; and the Secretaries of the Army, the Navy, and the Air Force.

Objective and Scope of Review. The audit was conducted under the Chief Financial Officers Act of 1990, as amended. We reviewed DSAA and DFAS-Denver compliance with provisions of laws and regulations that may directly affect the financial statements to obtain reasonable assurance that the financial statements were free of material misstatements. Our objective was not to provide an opinion on overall compliance with such provisions. The statement accounts on which we based our evaluation are presented in the statement of financial position, and the statement of operations and changes in net position of the FMS Trust Fund, Foreign Military Loan Liquidating account (loan liquidating account), Foreign Military Financing Direct Loan Financing account (loan financing account), and the Special Defense Acquisition Fund, as of September 30, 1996. The statements were submitted to us on January 31, 1997. The FY 1996 combined statement of financial position of the DSAA reported assets of \$31.8 billion, of which \$30 billion was for the FMS Trust Fund, loan liquidating account, loan financing account, and the Special Defense Acquisition Fund. A list of laws and regulations reviewed is in Appendix F of this report.

Reportable Conditions

Material instances of noncompliance are failures to follow requirements and violations of prohibitions in laws and regulations. Such failures and violations caused us to conclude that the aggregation of the misstatements resulting from those failures and violations is material to the principal statements, or those for which a sensitive nature would cause them to be perceived as significant. Instances of noncompliance with laws and regulations that materially affected the reliability of the statement of financial position existed. The instances of noncompliance were considered when forming our disclaimer of opinion on the

DSAA financial statements. The results of our tests of the FMS Trust Fund, loan liquidating account, loan financing account, and the Special Defense Acquisition Fund disclosed the following instances of noncompliance.

United States Code, Title 31, Section 3512, and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987⁶. United States Code, title 31, section 3512, (31, U.S.C., 3512) and DoD Directive 5010.38 were not fully complied with in establishing and assessing internal controls. The 31, U.S.C., 3512 requires agencies to establish internal accounting and administrative controls in accordance with standards instituted by the Comptroller General. Additionally, 31, U.S.C., 3512 requires agencies to establish a comprehensive system of internal control management to properly record and account for revenues and expenditures, prepare reliable financial and statistical reports, and maintain accountability over assets. DoD Directive 5010.38 provides the management control system for achieving the objective of 31, U.S.C., 3512. Results of our FY 1996 followup audit follow.

Implementation of the Management Control Program. The DSAA did not report any material weakness related to its financial statements. DFAS-Denver identified, in its FY 1996 Annual Statement of Assurance, a weakness related to integrating and reconciling numerous systems for managing FMS records, which resulted in inefficiencies, created a higher potential for errors, and caused difficulties in obtaining information. The DFAS-Denver identified accounting and reporting as a high risk assessable unit. Also, DFAS-Denver management control reviews reported that controls were in place for general ledger analysis and reconciliation of cash collections and disbursements. However, DFAS-Denver needs a more detailed breakdown of their assessable units as required by DFAS Regulation 5010.38-R, "Internal Management Control Program," February 1993. Specifically, that regulation states that a more detailed breakdown of assessable units is preferable to one which is rolled up too high. A more detailed breakdown facilitates the performance of risk assessments and management control reviews by limiting the scope of the reviews and permitting the reviewer to concentrate on a more limited and defined area.

Material Weaknesses not Reported by DSAA or DFAS-Denver. We identified internal control weaknesses in that the FMS Trust Fund revenues and expenses were not reported; \$209.7 million in disbursements were not matched with applicable customers; \$151.5 million of accounts payable were not properly recorded and reported; and the unearned revenue general ledger account was not supported by subsidiary ledgers. None of those weaknesses were identified during the DSAA or DFAS-Denver management control reviews. Consequently, the weaknesses we identified in IG, DoD, Report No. 96-187 and FY 1996 were not reported in the DSAA or DFAS-Denver annual statements of assurance.

⁶DoD Directive 5010.38 has been revised as "Management Control Program," August 26, 1996. The April 1987 version of the Directive was used because the audit was performed for financial statements ending September 30, 1996.

Review of Compliance with Laws and Regulations

OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements." The DSAA did not ensure and DFAS-Denver did not fully comply with the OMB Bulletin No. 94-01 for reporting revenues, expenses, and net position in the financial statements. The bulletin requires that revenues, expenses, and net position be accounted for and presented in the financial statements. However, DoD Financial Regulation, volume 15, did not allow revenue and expense recognition. Also, the bulletin requires that DoD Component record adjustment(s) as of the end of the fiscal year of audit for financial statement presentation. However, DFAS-Denver did not make the adjustment for the Navy FMS accounts payable of \$151.5 million in the statement of financial position but only disclosed the amount in the financial statement as a footnote.

DoD Financial Management Regulation, 7000.14. The DSAA did not ensure and DFAS-Denver did not fully comply with the DoD Financial Regulation, volume 1, DoD Financial Regulation, volume 5 and DoD Financial Regulation, volume 15 for maintaining a cash disbursement audit trail and accounting for accounts payable and unearned revenue transactions.

Cash Disbursements. The DSAA did not ensure and DFAS-Denver did not fully comply with the DoD Financial Regulation, volumes 1 and 5, for maintaining an audit trail for disbursements. DoD Financial Regulation, volumes 1 and 5, require that financial transactions be supported with pertinent documents and source records. Further, both require that transactions be referenced to individual source records. Referencing must be achieved in a manner that enables tracking or replicating a transaction from the resulting record or report to the source, or by tracking indirectly to source records through summaries contained in the general and specific journals. Supporting documents for \$11.7 billion of the FMS Trust Fund disbursements were not readily available at the seven disbursing stations visited, because DIFS omitted the unique identifier (voucher number and day) of the disbursement when processing the data. Without the voucher number and day, tracking the disbursements at the disbursing stations was not feasible.

FMS Trust Fund Liabilities. The DSAA did not ensure and DFAS-Denver did not fully comply with DoD Financial Regulation, volume 15, for accounting for accounts payable and unearned revenue transactions. DoD Financial Regulation, volume 15, requires that subsidiary ledger records for reconciling with the general ledger accounts and supporting documentation be maintained. However, DFAS-Denver did not maintain subsidiary records and did not perform monthly reconciliations. The DoD Financial Regulation, volume 4, require invoices received and estimated amounts for invoices not yet received to be reported in annual financial statements. However, DFAS-Denver did not report the Navy FMS accounts payable in the Statement of Financial Position and disclosed it only as a footnote. The noncompliance resulted in the general ledger accounts for accounts payable and unearned revenue being unverifiable and potentially materially misstated.

Reportable Conditions Identified in Prior Audit

The reportable conditions identified during this audit and the FY 1995 audit for the FMS Trust Fund are lack of recognition of the revenues, expenses, and net position; nonreporting of the accounts payable for the Navy in the financial statements; and the need for improvements of the internal management control program. Those conditions were identified in the IG, DoD, Report No. 96-187 (see Appendixes B and E).

Reportable Conditions Not Noted

Our evaluation of laws and regulations would not necessarily disclose all instances of noncompliance considered to be material and reportable. With respect to items not tested, nothing came to our attention that caused us to believe that DSAA and DFAS-Denver had not complied, in all material respects, with those laws and regulations identified above.

Part II - Additional Information

Appendix A. Audit Process

We examined the consolidated financial statements of DSAA and the financial statements of FMS Trust Fund, loan liquidating account, loan financing account, and the Special Defense Acquisition Fund as of September 30, 1996. We did not examine the statements of the Assistance for Relocation of Facilities in Israel account, Foreign Military Financing Grant Program, International Military Education and Training Program, the Military-to-Military Contact Program account, and Unanticipated Needs for Defense of Israel Against Terrorism accounts because the amounts of those accounts were not material. The consolidated FY 1996 DSAA statement of financial position reported assets of \$31.8 billion, of which \$30 billion was for the FMS Trust Fund, loan liquidating account, loan financing account, and the Special Defense Acquisition Fund. DSAA is responsible for administering the Secretary of Defense security assistance responsibilities and is primarily a policy and management oversight organization. The Military Departments are responsible for implementing and executing the FMS program. DFAS-Denver provides centralized accounting services for DSAA. The statement of financial position and the statements of operations and changes in net position on which we made our examination were submitted to us on January 31, 1997.

Scope

We evaluated the DSAA and DFAS-Denver internal management control structure related to the FMS Trust Fund, loan liquidating account, loan financing account, and the Special Defense Acquisition Fund. Also, we evaluated compliance with laws and regulations directly affecting the financial statements and other laws and regulations designated by OMB. Our review covered the statement of financial position and the statement of operations and changes in net position and related general ledger account balances as of September 30, 1996. In making our review, we verified or attempted to verify balances to subsidiary records and supporting source documentation generated by the accounting system. DFAS-Denver maintained the DIFS, which produced the general ledger accounts for the FMS Trust Fund. For the loan financing account, the FMS Credit System maintained by DSAA and the Washington Headquarters Services Allotment Accounting System (Modified) were used to produce the general ledger accounts while the Special Defense Acquisition Fund Accounting System, maintained by DFAS-Denver, was used for the Special Defense Acquisition Fund.

Limitations to Scope. The following circumstances limited our review of the general ledger accounts.

- o We were unable to validate the reasonableness of \$11.7 billion of disbursements made from October 1995 to July 1996 because there were 13 subordinate accounting systems that provide financial and accounting data to

the central accounting location at DFAS-Denver. Also, the verification of disbursements is further limited because supporting documents for FMS Trust Fund disbursements were maintained at second and third tier (see Part I.A. for details).

o The DSAA and DFAS-Denver were unable to identify the FMS Trust Fund accounts payable and unearned revenue universe for testing (see Part I.A. for details).

Performance Measures. We did not test performance measures. In the overview of the FY 1996 financial statements, DSAA stated that the performance measures were not directly linked to its plans, goals, and objectives. Levels of sales (or most other financial measurements) were not linked to the effective accomplishment of the DSAA mission.

Methodology

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit efforts provided a reasonable basis for our results.

Internal Control Structure. Our consideration of the internal control structure included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances. For those significant policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to assess more fully whether those controls were effective and working as designed.

Significant Policies and Procedures. Significant internal control structure policies and procedures that were considered as part of our understanding of the structure included:

o OMB Statement of Federal Financial Accounting Standards number 2, "Accounting for Direct Loans and Loan Guarantees," August 23, 1993, which provides accounting standards for Federal direct loans and loan guarantees. The standards require that direct loans obligated and loan guarantees committed after September 30, 1991, be accounted for on the present value basis.

o DoD Financial Regulation, volume 15, which establishes procedures for security assistance activities involving accounting, budgeting, fiscal matters, management, and pricing for reimbursements to DoD appropriation accounts and revolving funds; auditing; international balance of payments; and matters affecting the DoD budget.

Appendix A. Audit Process

o DoD Manual 5105.38, "Security Assistance Management Manual," October 1988, which provides information and instructions needed to carry out the administration of the FMS program and related activities.

Judgmental Sampling. The audit universe for the FMS Trust Fund consisted of 1,246 disbursing stations with total disbursements of \$11.7 billion. The sample transactions were based on the total disbursements made by the disbursing stations from October 1, 1995, to July 31, 1996. To test the audit trail of the FMS Trust Fund disbursements, a judgmental sample of seven disbursing stations and 679 (612 with source documents identified plus 67 with no source documents identified) transactions, totaling \$664 million, were chosen from the 93,547 transactions in the universe, totaling \$4.25 billion. To identify the voucher numbers for each of the samples, a manual research by amount, country code, case, and line item was conducted.

We reviewed all disbursements for direct loans and defaults under loan guaranty programs to determine whether controls were effective and working as designed. Additionally, we reviewed the processing and recording of loan and interest repayments from foreign countries. Also, we reviewed the policies and procedures for recording transactions in the general ledger and for preparing the financial statements.

Loan Liquidating Account. During FY 1996, the loan liquidating account disbursed eight direct loan disbursements totaling \$11.1 million and 29 default disbursements of about \$32.3 million. All the direct loan and default disbursements were reviewed. Funds collected for FY 1996 was \$288.7 million and all were reviewed. We reviewed the 236 loan receivables, totaling \$7.2 billion. Additionally, we mailed 35 country representatives requests for confirmation of loan receivables. We identified no material control weaknesses during the testing. See Appendix C for results.

Loan Financing Account. During FY 1996, the loan financing account made a total of 326 direct loan disbursements to foreign countries. Those disbursements totaled \$558.8 million. A random sample of 132 direct loan disbursements totaling \$508.2 million was tested. In addition, \$76.9 million was disbursed to the U.S Treasury to pay for interest expense on borrowed funds and all were tested. The funds collected \$111.5 million and all were reviewed. We reviewed the 12 loan receivables, totaling \$1.1 billion. Additionally, we mailed three country representatives requests for confirmation of loan receivables. We identified no material control weaknesses during the testing. See Appendix C for results.

Foreign Military Financing Program Account. In FY 1996, 326 disbursements of \$65.7 million, to the loan financing account were made. Of the 326 disbursements, we tested a random sample of 132 disbursements totaling \$61.4 million. We identified no material control weaknesses during the testing. See Appendix C for results.

Use of Computer-Processed Data. We reviewed the computer-processed data for DSAA and DFAS-Denver Fund Balances With Treasury, Accounts Payable, and Unearned Revenue for the FMS Trust Fund. For the loan liquidating

account and loan financing account, we reviewed Fund Balances With Treasury, Accounts Receivable, Loan Receivables, Interest Receivables, and Debt. A software engineer from our Technical Assessment Division assisted us in evaluating the reliability of the computer-processed data and the adequacy of application-related general controls of the FMS Credit System, Washington Headquarters Services Allotment Accounting System (Modified), Special Defense Acquisition Fund Accounting System, DIFS, and the DIFS Positive Transaction Control Subsystem. Based on our review and the tests and evaluations of the Technical Assessment Division, we concluded that the computer-processed data in DIFS for the FMS Trust Fund were not totally reliable. However, the unreliability did not affect the results of our audit.

Internal Management Control Program. Our internal management control evaluation included obtaining an understanding of management's process for evaluating and reporting on internal control and accounting systems, as required by the DoD Internal Management Control Program. That review also included comparing the material weaknesses that were related to the financial statements (reported in the entity's Annual Statement of Assurance) to the material weaknesses and reportable conditions we identified. We included tests of management controls considered necessary. For the loan financing account, we identified significant controls as disbursing and collection procedures and management of loan and interest receivables. We identified FMS Trust Fund control procedures as those dealing with accounting for surcharge revenues and expenses, cash management and reconciliation, determination and management of accounts payable and accounts receivable, and electronic data processing controls applicable to the DIFS. As stated within the limitation of scope section, we were unable to fully test the controls over cash management and accounts payable for the FMS Trust Fund, because audit trails were not easily accessible.

Representation Letters. We received legal and management representation letters from DSAA. The management representation letter did not attest to the accuracy or completeness of the financial data. See Appendix D for the legal and management representation letters.

Audit Period and Standards. This financial statement audit was made from July 1996 through January 1997. We conducted our audit in accordance with the requirements of OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, and OMB Bulletin No. 94-01. Those auditing standards require us to obtain reasonable assurance that the financial statements were free from material misstatement.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD, OMB, the General Accounting Office, and the Department of the Interior. Additionally, we mailed a request for confirmation of loan receivables to 35 foreign country representatives. Forty percent of the countries responded to the confirmation request. Further details are available on request.

Appendix B. Summary of Prior Audits and Other Reviews

During the last 5 years, the IG, DoD, has issued eight audit reports and the Army Audit Agency has issued one audit report that affect the financial statements of DSAA. The reported conditions, recommendations, and management comments are summarized below.

IG, DoD, Project No. 97-132, "Security Assistance and International Programs Account," April 18, 1997. The report stated that DFAS-Denver used the Security Assistance and International Programs account for contingency operations transactions that did not involve the DSAA reporting entity. As a result, as of June 30, 1996, the account overstated the dollar value of DSAA activities by \$5.3 million. The report recommended that the Director, DFAS-Denver discontinue using the Security Assistance and International Programs account for contingency operations that DSAA does not support, and transfer the contingency operations subaccount balance to an appropriate account. DFAS-Denver and DSAA generally concurred with the report.

IG, DoD, Report No. 96-187, "Internal Controls and Compliance with Laws and Regulations for the FY 1995 Financial Statements of the Defense Security Assistance Agency," June 28, 1996. The report expressed a disclaimer of opinion on the financial statements because DoD policy did not permit DFAS-Denver to account for the revenues and expenses in the FMS Trust Fund financial statements. Additionally, DSAA did not ensure that DFAS-Denver had established adequate audit trails from the account balances to underlying transactions used to support the FY 1995 statement of financial position for the FMS Trust Fund. The DSAA and DFAS-Denver internal control structure for the FMS Trust Fund needed improvement because it did not provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. The report recommended that the OUSD(Comptroller) require the recognition of the FMS Trust Fund revenues and expenses, DFAS-Denver establish reasonably accessible audit trails and subsidiary ledgers to support the processing and recording of transactions of the FMS Trust Fund, report accounts receivable with credit balances as a liability of the FMS Trust Fund, and age accounts receivable. The OUSD(Comptroller) agreed to obtain a waiver from compliance with OMB Bulletin No. 94-01. The OUSD(Comptroller) stated that the audit trail existed for the accounts payable and the unearned revenue account, and that additional information can be obtained from the installation level accounting systems. The OUSD(Comptroller) concurred with DFAS-Denver recording country level credit accounts receivable as a liability. The OUSD(Comptroller) partially concurred with aging accounts receivable, stating that although accounts receivable were being aged, applicable policy will be clarified. The report also recommended that the Navy report FMS accounts payable to DFAS-Denver for inclusion in the DSAA financial statements. The OUSD(Comptroller) concurred with DFAS-Denver including the Navy accounts payable in the financial statements. The Navy agreed to report the Navy FMS accounts payable.

Appendix B. Summary of Prior Audits and Other Reviews

IG, DoD, Report No. 95-240, "Progress Payments for the M1 Tank and Patriot Missile Programs," June 19, 1995. The report stated that progress payments were allocated accurately for the Patriot missile production contract, but were not always allocated accurately for the M1A2 research, development, test, and evaluation contract. Specifically, 60 of 69 progress payments contained 98 erroneous charges. Progress payments for FMS requirements were paid with DoD appropriations, and payments containing DoD requirements were paid with FMS funds. The report recommended that the Director, DFAS, Columbus Center, establish procedures to charge the correct funds when progress payments are made and reconcile allocation of payments on the M1A2 contract. The report also recommended that the Commander, U.S. Army Tank-automotive and Armaments Command, should require future contracts to have separate contract line item numbers for DoD and FMS, and when those requirements must be on the same contract, line item number criteria should be provided to allow the DFAS, Columbus Center to correctly allocate the amount of each progress payment to DoD and FMS funds. DFAS concurred with the finding and recommendations. The Army nonconcurred with the recommendation, stating that when DoD and FMS customers benefit from work done on a single contract, any separation of that work will result in unnecessary administrative costs to DoD and FMS customers. Additionally, the Army stated that the Army Tank-automotive and Armaments Command issues payment instructions to the paying office and will continue to provide appropriate payment instructions to DFAS.

IG, DoD, Report No. 94-090, "Management Data Used to Manage the Foreign Military Sales Trust Fund," April 29, 1994. The report stated that while the Military Departments and DFAS were providing the kinds of critical management data that DSAA needed to operate and make major financial decisions, the data reported was often incomplete or inaccurate. The report did not make any recommendations because a DoD working group and DFAS were involved in efforts to identify and correct problems of accounting for obligations and disbursements. The same computer systems analyzed during that audit are still used by the Military Departments and DFAS.

IG, DoD, Report No. 93-142, "Principal Financial Statements of the Defense Security Assistance Agency - FY 1992," June 30, 1993. The report expressed an adverse opinion on the principal financial statements because the statements did not account for revenues, expenses, and net position of the FMS Trust Fund. Additionally, accounts payable of the FMS Trust Fund pertaining to the Army and the Navy were not reported. Also, Special Defense Acquisition Fund revenues, expenses, and results of operations were not recognized as required by the DoD Accounting Manual. The report did not make any recommendations. The Chief Financial Officer nonconcurred with the need to account for revenues, expenses, and net position of the FMS Trust Fund. The Chief Financial Officer agreed that Special Defense Acquisition Fund revenues, expenses, and results of operations should be recognized when deliveries were made, but stated that a change in accounting methods would not be cost-effective because the Special Defense Acquisition Fund was being disestablished. The DSAA Comptroller disagreed that Special Defense Acquisition Fund revenues, expenses, and results of operations should be recognized when deliveries are made to customers.

Appendix B. Summary of Prior Audits and Other Reviews

IG, DoD, Report No. 93-121, "Special Defense Acquisition Fund Financial Statements for FY 1992," June 21, 1993. The report expressed a disclaimer of opinion on the financial statements because the fund did not have a general ledger system that was in compliance with laws and regulations and because the auditors were unable to obtain sufficient, competent evidence and make appropriate tests of the accounting records. Additionally, the fund did not use the accrual method of accounting and did not comply with the accounting principles in the DoD Financial Regulation. The report did not make any recommendations.

IG, DoD, Report No. 93-106, "Foreign Military Loan Liquidating Account Financial Statements for FY 1992," June 11, 1993. The report expressed an unqualified opinion that the financial statements fairly presented, in all material respects, the assets, liabilities, and net financial position of the account. The audit found no material weakness involving the management control structure and its operation. The account complied, in all material respects, with policies, laws, and regulations. The report did not make any recommendations.

Army Audit Agency Report No. SR 93-780, "Engineering Assistance Agreement Funds-Saudi Arabia," September 9, 1993. The report stated that the Transatlantic Division, U.S. Army Corps of Engineers did not have supporting documentation for disbursements totaling \$24.4 million when it transferred accounting records to DFAS-Denver in 1977. As a result, the accounting records for the two organizations have remained out of balance. The report recommended that the \$24.4 million be written off against the cost clearing accounts* held within the FMS Trust Fund. The Office of the Deputy Chief of Staff for Logistics, U.S. Army agreed to ask the Deputy for Security Assistance, DFAS-Denver, for approval to write off the \$24.4 million to the cost clearing accounts of the FMS Trust Fund. On September 17, 1996, in a DFAS-Denver memorandum to DSAA, DFAS-Denver requested permission to write off the disbursement. As of March 1, 1997, no adjustments had been made to bring the accounting records of the two organizations into balance.

*A cost clearing account is an account used when standard rates are employed. The actual expenses are debited to the cost clearing account and the amounts billed to customers are credited to that account.

Appendix C. Other Matters of Interest

During our audit of the DSAA FY 1996 consolidated financial statements, we reviewed four funds, totaling \$30 billion, that comprised 94.2 percent of the financial statements. Part I.A. identified the results of our review of the FMS Trust Fund of \$18.97 billion. The results of our review of the loan liquidating account of \$7.68 billion, the loan financing account of \$2.95 billion, and the Special Defense Acquisition Fund of \$353 million are as follows.

Loan Program Accounts

The IG, DoD, Report No. 93-106, expressed an unqualified opinion on the loan liquidating account financial statements and reported no material weaknesses involving the management control structure and its operation. In addition, the account was in compliance with applicable policies, laws, and regulations.

During our review of the consolidated DSAA FY 1996 financial statements for the loan liquidating account, and the loan financing account, we identified no material weaknesses involving the operation or the structure of internal controls, and we believe the internal control objectives were achieved. Also, those loan program accounts complied in all material respects with applicable policies, laws, and regulations.

During the audit, several issues were identified for which management took immediate corrective action. Examples of those issues follow.

- o Segregation of duties did not exist. Specifically, two personnel at DFAS-Denver could prepare and approve default disbursement vouchers. DFAS-Denver removed voucher approval authority for those personnel.

- o Four loans were input incorrectly into the FMS Credit System but were entered correctly into the Washington Headquarters Services Allotment Accounting System (Modified). DFAS-Denver corrected the problem in the FMS Credit System.

- o DSAA zero balanced two loans that were not approved to be written off. DSAA also paid late charge penalties on the loans to the Federal Financing Bank. DSAA reestablished the amount as a receivable and is drafting a memo requesting a write-off.

Special Defense Acquisition Fund

The IG, DoD, Report No. 93-121, "Special Defense Acquisition Fund Financial Statements for FY 1992," June 21, 1993, reported material conditions related to improper recognition of profit; erroneous account offsets; inadequacies in the fund accounting system; and a lack of standard operating procedures for recording and reporting accounting transactions for the Special Defense Acquisition Fund. Specifically, revenues; cost of sales; and profit were recognized at case closure instead of when deliveries were made; advances to contractors and unearned revenue accounts were used to offset each other; and the general ledger was not a double entry accounting system. Additionally, written procedures did not exist to ensure all accounts receivable were recorded; the fiscal yearend inventory was properly valued; revenues, expenses, and profits were recognized in the proper accounting period; and computer user manuals and system descriptions were available. As a means of corrective action, DFAS-Denver changed the general ledger accounting system into a double-entry accounting system. However, DFAS-Denver management stated that no further corrective action would be taken because Public Law 103-306 (FY 1995 Foreign Operations Appropriations) required that Special Defense Acquisition Fund be disestablished. The Chief Financial Officer Financial Management 5-Year Plan, August 1996, confirmed that those accounts were to be dissolved; but no specific date was given. Because of the planned disestablishment of the Fund, we performed no additional audit field work.

Appendix D. Disclaimer of Opinion and Financial Statements Audited



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

11 FEB 1997

In reply refer to
I-006898/96

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Management Assurance Concerning Defense Security Assistance Agency Financial Statements for FY 1996

This is in regard to your audit of the Defense Security Assistance Agency Financial Statements as of September 30, 1996 (Project No. 6LG-2006). The financial statements are presented fairly in accordance with the other comprehensive basis of accounting described in the Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. I confirm, to the best my knowledge and belief, the following representations.

I am responsible for the fair representation of the Defense Security Assistance Agency financial statements in accordance with OMB Bulletin No. 94-01.

All financial records and related data have been made available to you.

DFAS has reported material weaknesses in systems controls which affect the accuracy and completeness of the DSAA Financial Statements (see Atch. 1, DFAS/DE Memorandum dated January 21, 1997).

I have no plans or intentions, other than those previously disclosed to you, that may materially affect the carrying value or classification of assets and liabilities. Such classifications are determined by the OUSD (Comptroller).

I have no knowledge of any irregularities involving management or employees who have significant roles in the internal control structure.

I have no knowledge of any employee being involved in irregularities that could materially affect the financial statements.

I have received no communications from regulatory agencies or auditors concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

I have no knowledge of any violations or possible violations of laws or regulations that should be considered for disclosure in the financial statements or for recording a loss contingency.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies," March 1975.

There are no unasserted claims or assessments that our legal representative believes must be disclosed in accordance with Financial Accounting Standards Board Statement No. 5.

I have no knowledge of any material transactions that have not been properly recorded in the accounting records and reflected in the financial statements.

The Fund has satisfactory title to all assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

No events have occurred after the balance sheet date that would require adjustments to, or a disclosure in, the financial statements.

All adjustments that our activity or the DFAS made to account balances are fully documented and were made in accordance with applicable accounting standards.

Included as Attachment 2 is the legal representation letter for FY 1996.

Atchs. (2)
As stated



Thomas G. Rhame
Lieutenant General, USA
Director

Appendix D. Disclaimer of Opinion and Financial Statements Audited



DEFENSE FINANCE AND ACCOUNTING SERVICE
DENVER CENTER
4740 E. IRVINGTON PLACE
DENVER, COLORADO 80279

DFAS-DE/IR _____

JAN 21 1997

MEMORANDUM FOR DEPUTY DIRECTOR FOR ACCOUNTING, DEFENSE
FINANCE AND ACCOUNTING SERVICE

SUBJECT: Defense Security Assistance Agency Chief Financial
Officers (CFO) Act Fiscal Year (FY) 1996 Financial
Statements

Attached are the Principal Statements and Notes for Defense Security Assistance Agency FY 96 CFO Financial Statements required by Department of Defense Guidance on Form and Content of Financial Statements for FY 95 and FY 96 Financial Activity.

I hereby certify that the attached version 3 of the FY 96 Chief Financial Officers Act Principal Statements for the Defense Security Assistance Agency are a correct consolidation of accounting data provided to, or maintained by Defense Finance and Accounting Service - Denver Center (DFAS-DE). Any adjustments made by DFAS-DE are fully documented.

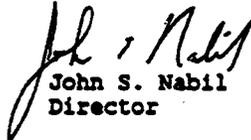
The Defense Finance and Accounting Service has reported material weaknesses in system controls. This is due to the numerous systems involved in Department of Defense Finance and Accounting for Security Assistance where integration and reconciliation's required result in inefficiencies. This has been reported in accordance with "United States Code, title 31, section 3512 (formerly the Federal Managers' Financial Integrity Act of 1982, Public Law 97-225)." These systemic problems resulted in \$210 million in disbursements not being identified to specific foreign customers as of September 30, 1996 (CFO note 1G). This is an improvement of \$160.5 million from the September 30, 1995 position; however, still constitutes a significant problem which we are working to resolve. There was also \$505 million in problem disbursements (excluding intransit disbursements) reported at field level as of September 30, 1996 (CFO note 31).

The Department of Defense Inspector General has not recommended any audit adjustments to these FY 96 CFO principal statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

2

Questions your staff may have concerning these financial statements may be directed to my project officer, Mr. Mike Kennedy, (303) 676-6038.


John S. Nabil
Director

Attachments:
As stated

Appendix D. Disclaimer of Opinion and Financial Statements Audited



GENERAL COUNSEL
DEFENSE SECURITY ASSISTANCE AGENCY
WASHINGTON, DC 20301-2800

DEFENSE LEGAL SERVICES

January 16, 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING DEPARTMENT OF DEFENSE

SUBJECT: Legal Representation Letter

During the period September 30, 1996 to January 10, 1997, in the course of performing legal services for the Defense Security Assistance Agency, I have become aware of no legal claims or assessments against the agency nor of any legal claims or assessments which probably will be asserted.

While in 1981 the Government of Iran filed a claim against the Government of the United States concerning unresolved issues involved in Iran's Foreign Military Sales program, the claim is not against the Defense Security Assistance Agency. The extent of the liability of the FMS Trust Fund in that claim will be the same as if there were no claim - at the final closure of Iran's FMS program, the residual amount in Iran's FMS Trust Fund account will be returned to Iran. Any additional sums which might be adjudged due to Iran by the Iran-U.S. Claims Tribunal at the Hague would only be payable from the Judgment Fund, just as the settlement of one piece of said claim has already been paid. The Department of State represents the United States before the Tribunal.

A handwritten signature in cursive script, appearing to read "Susan C. Ludlow-MacMurray".

Susan C. Ludlow-MacMurray

Defense Security Assistance Agency

Chief Financial
Officer
Annual Financial
Statement
FY 1996

March 1, 1997

**DEFENSE SECURITY
ASSISTANCE AGENCY**

**FY 1996 ANNUAL FINANCIAL
STATEMENT**

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Overview

***DEFENSE SECURITY
ASSISTANCE AGENCY***

PART I

OVERVIEW

OF THE

REPORTING ENTITY

Overview _____

Overview

**FY 1996 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY**

PART I - OVERVIEW OF THE REPORTING ENTITY

A. OVERVIEW

The Secretary of Defense designated the Defense Security Assistance Agency (DSAA) as the administrator of the security assistance program. Program responsibilities are defined and authorized by the Foreign Assistance Act (FAA), of 1961 as amended; the Arms Export Control Act (AECA), as amended, and other applicable statutes, Executive Orders, and Directives.

The security assistance program is executed by the DoD components, primarily the Army, Navy, Air Force, and Defense Logistics Agency, based on guidance from DSAA contained in DoD 5105.38-M, (Security Assistance Management Manual). Execution is the providing of DoD articles, services and training to eligible friends and allies from internal resources and/or from contractors.

DSAA works closely with other DoD components to develop a coherent strategy with respect to conventional arms transfers. The laws, policies, regulations and procedures governing the current U.S. system of arms export controls are continually reviewed to determine changes necessary to enhance their relevance to post cold war realities. As the DoD focal point for administering the multi-billion dollar security assistance program, DSAA is uniquely qualified to advise senior DoD policy makers on security assistance matters.

DSAA provides essential leadership in maintaining the bridge between foreign national security assistance requirements and maintenance of U.S. production capability. The continued long-term operation of numerous production and rebuild lines for major items of defense equipment are heavily impacted by, or dependent on, continued international security agreements.

Overview

SECURITY ASSISTANCE DEFINED

Security assistance is comprised of a series of programs that allow friends and allies to acquire U.S. articles, services and training for legitimate self-defense and for participation in multinational security efforts. The principal components of security assistance are Foreign Military Sales (FMS), Foreign Military Financing (FMF), International Military Education and Training (IMET), and transfer of Excess Defense Articles (EDA). Presidentially-directed drawdowns of defense assets may also be used to address urgent requirements for military assistance. The structure of each program provides the capability to respond to the needs of friends and allies by addressing their legitimate security concerns, while promoting U.S. foreign policy and national security interests. DSAA also has managerial and administrative responsibility for the Foreign Military Financing Program Account (FMFPA); the Foreign Military Loan Liquidating Account (FMLLA); the Foreign Military Financing Direct Loan Financing Account (FMFDLFA); the former Guaranty Reserve Fund (GRF), and the Special Defense Acquisition (SDAF).

As an integral part of peacetime engagement, security assistance programs contribute to U.S. national security by enhancing deterrence, encouraging defense responsibility sharing among friends and allies, supporting U.S. readiness, and increasing interoperability among potential coalition partners. By providing visible proof of commitment to U.S. interests and support for friends and allies, security assistance is a critical element of U.S. forward presence. Transfers of U.S. defense equipment and training help security partners defend against possible aggression and strengthen their ability to fight alongside U.S. forces in coalition efforts. Security assistance raises the odds that U.S. forces will find effective coalition partners and a relatively favorable situation should a U.S. response be required.

A brief description of programs listed above follows:

INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) (ACCOUNT 1081)

The IMET Program is a low cost grant program (\$39.0 million in FY 1996) that has provided professional military education and training to more than 5,000 foreign military and civilian personnel from over 100 countries annually. Over half a million foreign personnel have been trained through IMET sponsorship over the past three decades. By attending IMET sponsored courses and programs in the U.S., future leaders of foreign defense and related establishments are exposed to U.S. values, including regard for human rights, democratic institutions, and the role of a professional military under civilian control.

Overview

To meet the challenges posed by recent transitions to democracy in countries throughout the world, IMET has been expanded to include programs focusing on human rights, defense resource management, military justice, and civil-military relations. The IMET program remains one of DoDs highest priority military assistance programs. It is one of the least costly and most effective programs for maintaining U.S. influence and assisting countries in their transition to functioning democracies. Performance Measures are shown in Part I, Section B.

FOREIGN MILITARY FINANCING GRANTS (FMF) (ACCOUNT 1082)

FMF is the U.S. government program for financing U.S. defense sales to selected friends and allies generally through the FMS program. Congress appropriates funds in the International Affairs budget, OMB apportions the funds with State Department's approval, for eligible friends and allies, and the Department of Defense executes the program. FMF grants in FY 1996 totaled \$3.269. Of the FY 1996 amount, \$3.1 billion was provided to Israel and Egypt. Of the remainder, funding was provided to support the Warsaw Initiative, finance the lease of F-16s by Jordan, support worldwide demining efforts, promote regional security in the Caribbean, foster democratic development in Cambodia, and support the Baltic Peacekeeping Battalion. Specifically, countries participating in the Partnership for Peace (PFP) received funding under the Warsaw Initiative to help them take necessary steps toward interoperability with NATO and participation in the PFP exercises. Further, Greece and Turkey received market rate loans in FY 1996. Performance indicators shown in Part I, Section B. In addition to the \$3.269 billion of FY 1996 FMF grants to foreign nations, \$23 million of administrative funds were appropriated and apportioned to the FY 1996 FMF Grant account for a total budget authority of \$3.292 billion.

MILITARY TO MILITARY CONTACT PROGRAM (MMCP) (ACCOUNT 1084)

The Administration did not request funding for the MMCP in FY 1996. MMCP type activities will be continued in the future as part of a broader program of traditional CINC military-to-military programs, outside of security assistance channels. Since there were no funds appropriated in FY 1996, there are no performance indicators.

UNANTICIPATED NEEDS FOR DEFENSE OF ISRAEL AGAINST TERRORISM (ACCOUNT 1089)

This account was established by congress in 1996 and authorized \$50.0 million for defense of Israel against terrorism. Since these funds were appropriated and immediately obligated and disbursed, there are no performance measures.

Overview _____

SPECIAL DEFENSE ACQUISITION FUND (SDAF) (ACCOUNT 4116)

SDAF is a revolving fund established by the International Security and Development Cooperation Act of 1981 to acquire defense articles and services in anticipation of subsequent sale through FMS to national governments and international organizations. The SDAF account is replenished from the proceeds of sales of articles purchased by the account. SDAF performance measurements are presented in the overview and in the supplemental section of this report. The Administration decided to phase out the SDAF program beginning in FY 1994 and use incoming sales receipts to offset high priority requirements in foreign affairs appropriations. Due to the decapitalization of the fund, \$322 million was returned to the U.S. Treasury (Revolving Fund Capital Transfer Account, 112814) in FY 1996, compared to \$282.0 million in FY 1995. Performance measures are shown in Part I and Part III.

GUARANTY RESERVE FUND (GRF) (ACCOUNT 4121)

This account was established by Congress to provide a guaranty against country loan arrearages or defaults on the repayment of loans due to the FFB and commercial banks. The nature and purpose of this account was changed on October 1, 1991, by implementation of the Credit Reform Act. It has now been replaced by the FMLLA (Account 4121).

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA)
(ACCOUNT 4121)**

This account was established under Credit Reform Act. Consolidated into this symbol were all assets, liabilities, and equities for loan balances previously recorded in accounts 11-1082, 11M1083, 11M1084, and 11X4121. This account disburses loan funds previously made available and accounted for under the above accounts. FMLLA performance measurements are shown in Part I and Part III.

During FY 1996, the FMLLA had reimbursements of \$288.7 million, consisting of \$245.8 million of receipts on FFB guaranteed FMF loans, and \$42.9 million of reimbursements on defaulted and rescheduled guaranteed FMF loans. The \$245.8 million was transferred to the FFB, and the \$42.9 million of reimbursements on defaulted and rescheduled loans was partially reused to offset the \$59.2 million of new defaults paid to lenders covered by DoD guarantees.

Overview

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA) (ACCOUNT 4122)

This account is reported as part of the FMF Direct Loan Financing Account (FMFDLFA). The following narrative is provided to reflect its relationship to the FMFDLFA. The FMFPA, (Account 1085), was established by the Credit Reform Act as an appropriated fund account to provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the FMFDLFA to make the required loan disbursements for approved FMS or commercial sales. Management has taken action to establish performance indicators for this account. (See the overview and supplemental sections for FMFDLFA performance measures.)

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA) (ACCOUNT 4122)

This account was established under the Credit Reform Act. The account provides the methodology for disbursing Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans. The account uses permanent borrowing authority from the Treasury, combined with transfers of appropriated funds from account 1085 to make the required payments for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the Treasury. FMFDLFA performance measurements are shown in the overview and in the supplemental section of this report.

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242)

This account was established as a means of facilitating the purchase of U.S. defense articles and services by friends and allies, as authorized in the AECA. The FMS Trust Fund provides a vehicle through which the United States Government manages national funds required for payments to U.S. contractors for new procurement, and to DoD components for sales of DoD articles and services. The performance measurements in the overview and the performance indicators in the supplemental section are indicative of the FMS business process.

Responsible arms sales further national security and foreign policy objectives by strengthening U.S. bilateral defense relations and supporting coalition building. National benefits derived from these sales include an improved balance of trade and sustainment of highly skilled jobs. DoD benefits from FMS through extension of production lines and lowering of unit costs for key weapon systems, (M1A2 tank, F-16 aircraft, AH-64 (Apache) helicopters, F/A-18 aircraft).

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Overview

The role of the USG, and therefore DSAA, is to respond to requests for purchases. As such, we don't link a certain level of sales (or most other financial measurements) to the effective accomplishment of the Agency's mission.

Sales for the last five years are as follows: (Source: DSAA 1200 System)

FISCAL YEAR	SALES IN BILLIONS
1996	10.5
1995	9.1
1994	12.9
1993	33.2
1992	15.2

EXCESS DEFENSE ARTICLES (EDA)

EDA is the quantity of defense articles (other than construction equipment) that is in excess of the Approved Force Acquisition Objective and Approved Force Retention Stock levels at the time such articles are dropped from the DoD inventory. Such articles may be sold to eligible countries and international organizations under the FMS program, or transferred on a grant basis under the provisions of Sections 516, through 519 of the FAA. During 1996, Congress consolidated all grant authorities under Section 516 of the FAA (P.L. 104-164). EDA transfers of \$885.5 million were approved during FY 1996, compared to \$504.0 million in FY 1995 and \$267.0 million in FY 1994 (current values). Egypt, Turkey, Great Britain, Greece, and Taiwan were the largest recipients of EDA during FY 1996.

Overview

EMERGENCY DRAWDOWN AUTHORITIES

Section 506, FAA authorizes the President, on a grant basis, to draw down defense articles from DoD inventories and provide defense articles to national governments and international organizations in response to military emergencies or to provide assistance for international narcotics control, international disaster relief, or refugee assistance. In FY 1996, Section 506 FAA, drawdowns for narcotics control efforts totaled \$75 million, drawdowns to support Israel's counterterrorism efforts totaled \$22 million. DoD supported the effort to achieve stability in Bosnia with a \$100 million drawdown. Emergency assistance for Liberia totaled \$15 million in equipment. A drawdown of equipment and training totaling \$11.5 million was provided in support of POW/MIA efforts in Indochina. Jordan, Haiti, Eritea, Ethiopia, and Uganda also received drawdown assistance in FY 96.

PEACEKEEPING

The number of situations requiring peacekeeping operations has risen dramatically in the past few years. The elements of security assistance can provide support to peacekeeping operations in a variety of ways. Defense articles and services may be provided to individual countries or international organizations participating in selected regional peacekeeping operations through security assistance sale and lease programs or grant authorities. During FY 1996, defense articles and services were provided to nations contributing to the Baltic Peacekeeping Battalion using FMS procedures.

ACCOUNTING RESPONSIBILITIES FOR THE FUNDS

Since 7 March 1993, the Defense Finance and Accounting Service (DFAS), Denver Center, Deputate for Security Assistance (DFAS-DE/I) has provided centralized accounting and related financial reporting services to DSAA.

Overview _____

REPORT PREPARATION:

The financial statements have been prepared to report the financial position and results of operation of the reporting entity, pursuant to the requirements of the CFO Act of 1990. While the financial statements have been prepared from the books and records of the entity, as maintained by DFAS-DE/I, in accordance with the formats prescribed by OMB, the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a Federal entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. DSAA is included in the DoD Five Year Financial Management Plan. This report does not identify any separate funding requirements.

SUMMARY

Changes in the post cold war international security environment continue to provide challenges for the security assistance programs. In many aspects, the security assistance mission has grown in scope and complexity with the expanded involvement of DoD in regional policy issues and coalition defense and with the growth of high visibility, "non-traditional" security assistance efforts in support of peacekeeping and demining. An effective security assistance program, supporting U.S. national security interests and foreign policy objectives will remain a key part of U.S. security strategy. Tables 1-1 through 1-6 illustrate FMS activity for FYs 1991 through 1996. Table 1-7 provides an overview of program dollar value by fiscal year.

Overview

TABLE 1-1

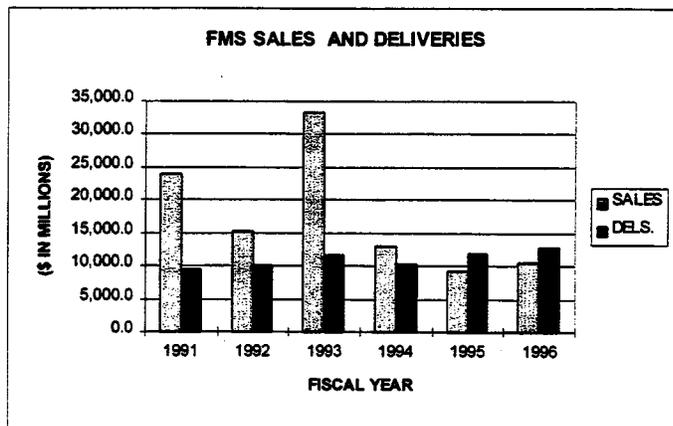
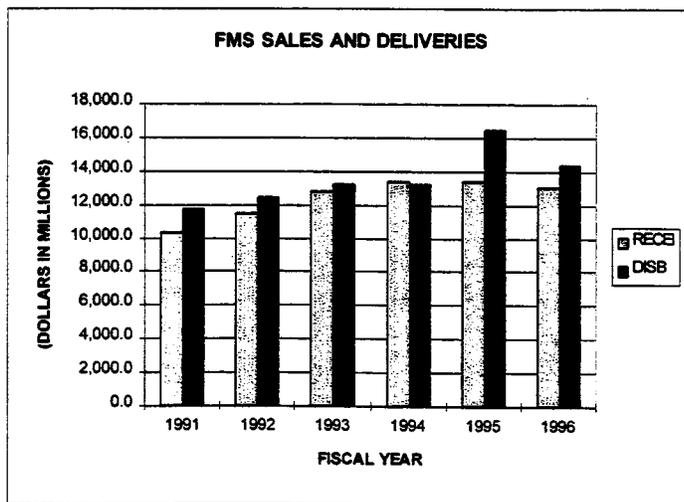


TABLE 1-2

FMS TRUST FUND ACTIVITY



Overview

TABLE 1-3

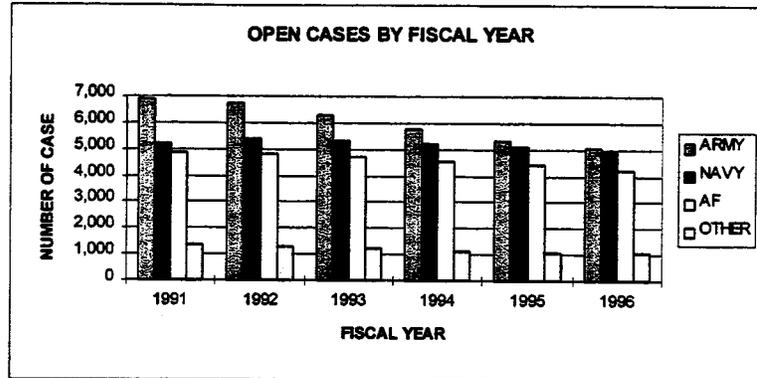
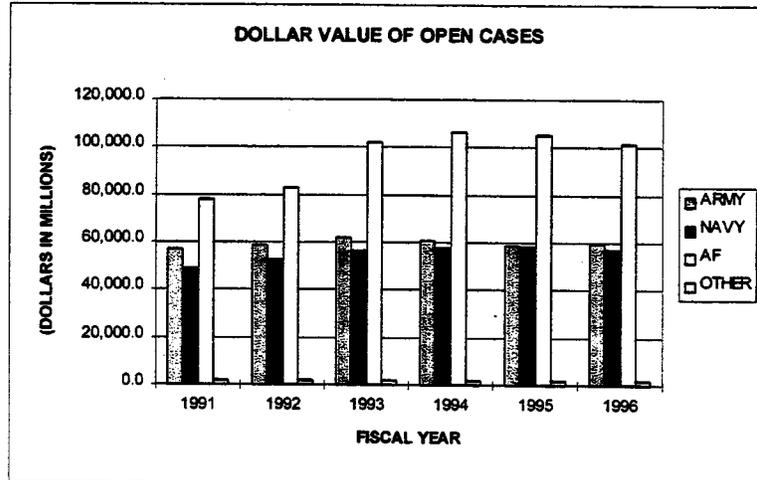


TABLE 1-4



Overview

TABLE 1-5

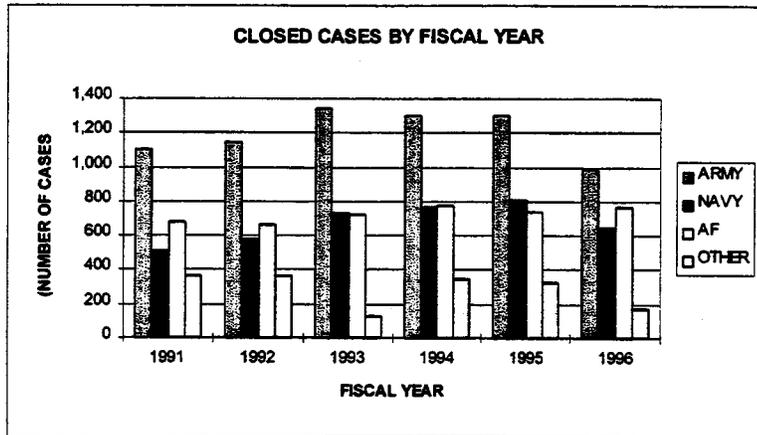
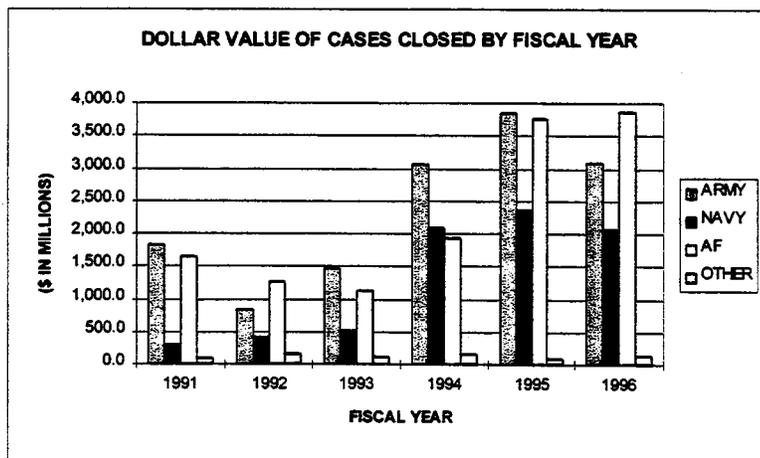


TABLE 1-6



Overview

TABLE 1-7
SECURITY ASSISTANCE PROGRAMS BY FISCAL YEAR

PROGRAM	FY 1992 ACTUAL	FY 1993 ACTUAL	FY 1994 ACTUAL	FY 1995 ACTUAL	FY 1996 ACTUAL	FY 1997 EST.
FMS (\$ B)	15.2	33.0	12.9	9.1	10.5	10.6 ^a
FMF GRANTS (\$ B)	3.93	3.27	3.15	3.15	3.30	3.22 ^a
FMF LOANS (\$M)	345.0	855.0	770.0	558.0	544.0	540.0 ^a
IMET (\$M)	44.6	42.5	22.25	26.35 ^b	39.0	43.5 ^a
EDA (GRANTS (\$M) ^c	178.0	290.0	170.0	308.0	-	- ^d
EDA SALES (\$M) ^c	52.0	88.0	97.0	196.0	-	- ^d

^a Estimated

^b IMET for FY 1995 includes \$850K transferred from Voluntary Peacekeeping Account

^c EDA figures reflect current value

^d EDA transfers are not projected for future years

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

INTERNATIONAL MILITARY EDUCATION AND TRAINING, ACCOUNT 1081:

FINANCIAL: Financial Performance

THOUSANDS (\$ X 000)

FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	\$32,418.0
Liabilities	<u>10,383.0</u>
Equity	\$22,081.0

Current Ratio (Current Assets to Current Liabilities)	3.1:1
---	-------

FY 1995 END OF YEAR POSITION	<u>TOTAL</u>
Assets	\$27,945.0
Liabilities	<u>9,325.0</u>
Equity	\$18,620.0

Current Ratio (Current Assets to Current Liabilities)	3.0:1
---	-------

NARRATIVE:

This performance measure compares assets to liabilities. For a breakout of the FY 1996 Liabilities amount see the "Statement of Financial Position" for 11 1081 in Part II and Footnote 17.B. This fund has more than enough assets to cover its liabilities. The FY 1995 amounts are presented for comparison.

SOURCE:

General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**INTERNATIONAL MILITARY EDUCATION AND TRAINING, ACCOUNT
1081:**

FINANCIAL: Operating Costs

THOUSANDS (\$ X 000)

FY 1996 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	\$31,028.0
Less: Total Expenses and Losses	<u>31,028.0</u>
Results of Operations (Gain)	0.0
FY 1995 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	25,718.0
Less: Total Expenses and Losses	<u>25,718.0</u>
Results of Operations (Gain)	0.0

NARRATIVE:

This performance measure presents the annual results of operation. All appropriated capital was used for grants for IMET training.

SOURCE:

Statement of Operation and Changes in Net Position.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

INTERNATIONAL MILITARY EDUCATION AND TRAINING, ACCOUNT 1081:

OPERATING RESULTS: Reimbursement of DoD for Articles and Services

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
COLLECTIONS	\$0.0
DISBURSEMENTS	\$30,003.6
FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
COLLECTIONS	\$0.0
DISBURSEMENTS	\$27,313.0

NARRATIVE:

This performance measure presents the annual receipts and outlays for the fund. There are no collections, all funds are appropriated. Disbursements were to commercial contractors or DoD agencies, through grants to various countries. The FY 1995 amounts are presented for comparison.

SOURCE:

General Ledger and September 1996 SF 133 (Report on Budget Execution).

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

INTERNATIONAL MILITARY EDUCATION AND TRAINING, ACCOUNT 1081:

FINANCIAL: Financial Condition

THOUSANDS (\$ X 000)

FY 1996 YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	\$32,418
Inventory	0
Advances and Prepayments	46
Accounts Receivable, Federal	0
TOTAL ASSETS	\$32,464
LIABILITIES	
Accounts Payable, Non-Federal	\$10,383
Other Liabilities	0
Accounts Payable, Federal	0
TOTAL LIABILITIES	\$10,383
Current Ratio (Current Assets to Current Liabilities)	3.1:1
FY 1995 YEAR END POSITION	
ASSETS	
Cash/Fund Balance with Treasury	\$27,932
Inventory	0
Advances and Prepayments	13
Accounts Receivable, Federal	0
TOTAL ASSETS	\$27,945
LIABILITIES	
Accounts Payable, Non-Federal	\$9,325
Other Liabilities	0
Accounts Payable, Federal	0
TOTAL LIABILITIES	\$9,325
Current Ratio (Current Assets to Current Liabilities)	3.0:1

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**INTERNATIONAL MILITARY EDUCATION AND TRAINING, ACCOUNT
1081:**

FINANCIAL: Financial Condition (Continued)

NARRATIVE:

This performance measure shows the year end position of this fund. All assets and liabilities are considered "current" and there are no "long term" accounts. The Fiscal Year (FY) 1995 amounts are presented for comparison.

SOURCE:

General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**INTERNATIONAL MILITARY EDUCATION AND TRAINING,
ACCOUNT 1081:**

FINANCIAL CONDITION: Assets to Liabilities Ratio

THOUSANDS (\$ X 000)	
FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	32,464
Liabilities	<u>10,383</u>
Equity	22,081
Assets to Liabilities Ratio	3.13:1

FY 1995 END OF YEAR POSITION	<u>TOTAL</u>
Assets	27,945
Liabilities	<u>9,325</u>
Equity	18,620
Assets to Liabilities Ratio	3.00:1

NARRATIVE:

This performance measure represents the asset to liability ratio.

SOURCE:

General ledgers.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING (FMF), ACCOUNT 1082:

FINANCIAL: Financial Performance

THOUSANDS (\$ X 000)

FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	\$1,783,844.0
Liabilities	<u>479.0</u>
Equity	\$1,783,365.0
Current Ratio (Current Assets to Current Liabilities)	3,724.1:1
 FY 1995 END OF YEAR POSITION	 <u>TOTAL</u>
Assets	\$1,437,169.0
Liabilities	<u>712.0</u>
Equity	\$1,436,457.0
Current Ratio (Current Assets to Current Liabilities)	2,018.5:1

NARRATIVE:

This performance measure compares assets to liabilities. For a breakout of the FY 1996 Liabilities amount see the "Statement of Financial Position" for 11 1082 in Part II and Footnote 17.B. This fund has more than enough assets to cover its liabilities. The FY 1995 amounts are presented for comparison.

SOURCE:

General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING (FME), ACCOUNT 1082:

FINANCIAL: Operating Costs

THOUSANDS (\$ X 000)

FY 1996 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	\$2,946,737.0
Less: Total Expenses and Losses	<u>2,946,332.0</u>
Results of Operations (Gain)	405.0
FY 1995 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	2,934,374.0
Less: Total Expenses and Losses	<u>2,933,210.0</u>
Results of Operations (Gain)	1,164.0

NARRATIVE:

This performance measure presents the annual results of operation. The total earnings for Fiscal Year (FY) 1996 was \$405,407. The total earning for FY 1995 was \$1,163,500. This amount was derived from the sale of old MAP equipment. This income will be used to supplement grant money's to be used.

SOURCE:

Statement of Operation, Costs and Changes in Net Position.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING (FME), ACCOUNT 1082:

OPERATING RESULTS: Reimbursement of DoD for Articles and Services

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
COLLECTIONS	\$405.4
DISBURSEMENTS	\$2,946,201.7
FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
COLLECTIONS	\$1,163.5
DISBURSEMENTS	\$2,934,430.3

NARRATIVE:

This performance measure presents the annual receipts and outlays for the fund. These collections were received through sale of old excess MAP equipment. Disbursements were to commercial contractors or DoD agencies through grants made to various countries. The FY 1995 amounts are presented for comparison.

SOURCE:

General Ledger and September 1996 SF 133 (Report on Budget Execution).

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING (FME), ACCOUNT 1082:

FINANCIAL: Financial Condition

THOUSANDS (\$ X 000)

FY 1996 YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	\$1,783,824
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal	<u>20</u>
TOTAL ASSETS	\$1,783,844
LIABILITIES	
Accounts Payable, Non-Federal	\$479
Other Liabilities	0
Accounts Payable, Federal	0
TOTAL LIABILITIES	\$479
Current Ratio (Current Assets to Current Liabilities)	3,724.1:1
FY 1995 YEAR END POSITION	
ASSETS	
Cash/Fund Balance with Treasury	\$1,436,806
Inventory	0
Advances and Prepayments	323
Accounts Receivable, Federal	<u>40</u>
TOTAL ASSETS	\$1,437,169
LIABILITIES	
Accounts Payable, Non-Federal	\$672
Other Liabilities	40
Accounts Payable, Federal	0
TOTAL LIABILITIES	\$712
Current Ratio (Current Assets to Current Liabilities)	2,018.5:1

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING (FME), ACCOUNT 1082:

FINANCIAL: Financial Condition (Continued)

NARRATIVE:

This performance measure shows the year end position of this fund. All assets and liabilities are considered "current" and there are no "long term" accounts. The Fiscal Year (FY) 1995 amounts are presented for comparison.

SOURCE:

General Ledger.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY FINANCING (FME), ACCOUNT 1082:

FINANCIAL CONDITION: Assets to Liabilities Ratio

THOUSANDS (\$ X 000)	
FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	1,783,844
Liabilities	<u>479</u>
Equity	1,783,365
Assets to Liabilities Ratio	3,724.1:1

FY 1995 END OF YEAR POSITION	<u>TOTAL</u>
Assets	1,437,169
Liabilities	<u>712</u>
Equity	1,436,457
Assets to Liabilities Ratio	2018.5:1

NARRATIVE:

This performance measure represents the asset to liability ratio.

SOURCE:

General ledgers.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

PROGRAM: Number of Purchase Orders Issued, New and Revised

FY 1996 ACTIVITY **TOTAL**

TOTAL MILITARY INTERDEPARTMENTAL PURCHASE
REQUESTS(MIPRs) ISSUED 96

FY 1995 ACTIVITY **TOTAL**

TOTAL MILITARY INTERDEPARTMENTAL PURCHASE
REQUESTS (MIPRs) ISSUED 200

NARRATIVE:

This performance measure reflects the number of MIPRs that were issued with current and prior year obligation authority and the number of revisions to existing MIPRs.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

PROGRAM: Number of Purchase Orders Closed

FY 1996 ACTIVITY

Age in Years	<u>TOTAL</u>
0-3	2
4-6	25
7-9	27
10+	<u>37</u>
TOTAL	90

FY 1995 ACTIVITY

Age in Years	<u>TOTAL</u>
0-3	1
4-6	24
7-9	35
10+	<u>10</u>
TOTAL	70

NARRATIVE:

This performance measure shows the number of purchase orders that were closed and their relative age.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Gain or Loss on Cases Closed

(Whole Dollars)

FY 1996 ACTIVITY	<u>TOTAL</u>
Net Gain Returned to U.S. Government Treasury	\$0.0
FY 1995 ACTIVITY	<u>TOTAL</u>
Net Gain Returned to U.S. Government Treasury	\$0.0

NARRATIVE:

This performance measure reflects the dollar amounts returned to the U.S. Treasury. There were no funds returned to Treasury in Fiscal Year (FY) 1995. Due to the decapitalization of the fund, a FY 1996 gain of \$26,921,782.83 was used to write-off unsalable equipment. An additional gain of \$27,620,001.92 will be returned to the Treasury by the DSAA SDAF Program Manager after the remaining capitalization of the fund is returned.

SOURCE:

Financial Statements.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Financial Performance

THOUSANDS (\$ X 000)

FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	\$353,326.0
Liabilities	<u>125,706.0</u>
Equity	\$227,620.0

Current Ratio (Current Assets to Current Liabilities)	2.8:1
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FY 1995 END OF YEAR POSITION	<u>TOTAL</u>
Assets	\$656,074.0
Liabilities	<u>134,074.0</u>
Equity	\$522,000.0

Current Ratio (Current Assets to Current Liabilities)	4.9:1
--	-------

NARRATIVE:

This performance measure compares assets to liabilities. For a breakout of the FY 1996 Liabilities amount see the "Statement of Financial Position" for 11X4116 in Part II and Footnote 17.B. Of the total "Liabilities amount of \$125,706.0 for FY 1996, \$123,745.0 applies to "Other non-Federal Liabilities." This amount (\$123,745.0) was computed by using "Advances to Contractors" (GLAC 1400) and "Unearned Revenue" (GLAC 2310) in accordance with the "Completed Contract Method" of accounting. This fund has more than enough assets to cover its liabilities. The FY 1995 amounts are presented for comparison.

SOURCE:

SDAF General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Operating Costs

THOUSANDS (\$ X 000)

FY 1996 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	\$352,072.0
Less: Total Expenses and Losses	<u>324,452.0</u>
Results of Operations (Gain)	27,620.0
FY 1995 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	307,606.0
Less: Total Expenses and Losses	<u>307,606.0</u>
Results of Operations (Gain)	0.0

NARRATIVE:

This performance measure presents the annual results of operation. The total earnings for Fiscal Year (FY) 1996 was \$352,072,031.42. During FY 1995 and before the September 30, 1995 accounting position was determined, \$15,545,063.03 of gain was used to write-off unsalable equipment. During FY 1996 and before the September 30, 1996 accounting position was determined, \$26,921,782.83 of gain was used to write-off unsalable equipment. An additional \$27,620,001.92 of gain will be returned to the Treasury by the DSAA SDAF Program Manager after the remaining capitalization of the fund is returned.

SOURCE:

Statement of Operation, Costs and Changes in Net Position.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

OPERATING RESULTS: Reimbursement of DoD for Articles and Services

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
COLLECTIONS	\$172,758.6
DISBURSEMENTS	\$35,805.5
FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
COLLECTIONS	\$245,452.6
DISBURSEMENTS	\$159,873.0

NARRATIVE:

This performance measure presents the annual receipts and outlays for the fund. These collections were received through the Foreign Military Sales Trust Fund from foreign customers and from DoD agencies for articles and services sold from the fund. Disbursements were to commercial contractors or DoD agencies. The FY 1995 amounts are presented for comparison.

SOURCE:

SDAF General Ledger and September 1996 SF 133 (Report on Budget Execution).

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Financial Condition

THOUSANDS (\$ X 000)

FY 1996 YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	\$268,941
Inventory	50,384
Advances and Prepayments	0
Accounts Receivable, Federal	<u>34,001</u>
TOTAL ASSETS	\$353,326
LIABILITIES	
Accounts Payable, Non-Federal	\$821
Other Liabilities	123,745
Accounts Payable, Federal	<u>1,140</u>
TOTAL LIABILITIES	\$125,706
Current Ratio (Current Assets to Current Liabilities)	2.8:1
FY 1995 YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	\$453,988
Inventory	152,885
Advances and Prepayments	0
Accounts Receivable, Federal	<u>49,201</u>
TOTAL ASSETS	\$656,074
LIABILITIES	
Accounts Payable, Non-Federal	\$7,039
Other Liabilities	124,982
Accounts Payable, Federal	<u>2,053</u>
TOTAL LIABILITIES	\$134,074
Current Ratio (Current Assets to Current Liabilities)	4.9:1

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

FINANCIAL: Financial Condition (Continued)

NARRATIVE:

This performance measure shows the year end position of this fund. All assets and liabilities are considered "current" and there are no "long term" accounts. The Fiscal Year (FY) 1995 amounts are presented for comparison.

SOURCE:

SDAF General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

**B. PERFORMANCE MEASURES FOR PART I
FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT,
ACCOUNT 4121:**

FINANCIAL PERFORMANCE: Reimbursement of DoD Articles and Services
THOUSANDS (\$ X 000)

FY 1996 ACTIVITY, END OF YEAR POSITION	TOTAL
11X4121 Principal and interest collections on defaulted Federal Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans	42,839
112968 Principal collections on Direct Loans and the direct portion of rescheduled loans	660,588
111468 Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Federal Financing Bank and Commercial Guaranteed Loans	244,575
11X4121 Principal on Federal Financing Bank loans - transferred to 20X4521.097	245,833
11X4121 Interest on Federal Financing Bank loans transferred to 20X4521	298,143
TOTAL COLLECTIONS	1,491,978
FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
11X4121 Principal and interest collections on defaulted Federal Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans	149,870
112968 Principal collections on Direct Loans and the direct portion of rescheduled loans	673,622
111468 Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Federal Financing Bank and Commercial Guaranteed Loans	262,683
11X4121 Principal on Federal Financing Bank loans - transferred to 20X4521.097	292,387
11X4121 Interest on Federal Financing Bank loans transferred to 20X4521	320,763
TOTAL COLLECTIONS	1,699,325

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT,
ACCOUNT 4121:**

**FINANCIAL PERFORMANCE: Reimbursement of DoD Articles and Services
(continued)**

NARRATIVE:

This performance measure compares the collections made to various accounts for several types of loans. The collections are made for: (a) repayments of guaranty disbursements made by DSAA for defaults or rescheduling and collected back into 11X4121 for new default disbursements; (b) repayments for direct loans and deposited into Treasury's miscellaneous receipt accounts 2968 and 1468; (c) and repayments for Federal Financing Bank (FFB) loans and returned to FFB for borrowings from FFB. Collections of miscellaneous receipts (2968 and 1468) have increased over the past two years due to increased principal collections for direct loans. Collections into 11X4121 have decreased the past two years due to rescheduling of certain countries which were primarily in arrears.

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654).

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT,
ACCOUNT 4121:**

FINANCIAL CONDITION: Assets to Liabilities Ratio

MILLIONS (\$ X 000,000)	
FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	7,676
Liabilities	<u>7,065</u>
Equity	611
Assets to Liabilities Ratio	1.08:1

FY 1995 END OF YEAR POSITION	<u>TOTAL</u>
Assets	8,501
Liabilities	<u>7,882</u>
Equity	619
Assets to Liabilities Ratio	1.07:1

NARRATIVE:

This performance measure represents the asset to liability ratio. Included in the asset balance are receivables for Federal Financing Bank (FFB) loans which equal the total liabilities which are borrowings from FFB.

SOURCE:

General ledgers.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT,
ACCOUNT 4121:**

Operating Costs

	THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY, END OF YEAR POSITION		<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings		<u>(293,490)</u>
Total Operating Expenses		(293,490)
FY 1995 ACTIVITY, END OF YEAR POSITION		<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings		<u>(316,554)</u>
Total Operating Expenses		(316,554)

NARRATIVE:

This performance measure represents the costs associated with the liquidating account. The only cost was interest expense paid to the Federal Financing Bank (FFB) for borrowings on FFB loans administered by DSAA. The drop in interest expense from FY 95 to FY 96 is due to the decrease in loan principal as FFB loans are paid off by the customers. There are no new FFB loan receivables to increase the principal balance thus increasing the interest expenses.

SOURCE:

General ledgers.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT,
ACCOUNT 4121:**

Operating Results

	THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY		<u>TOTAL</u>
Revenues less Funds Returned to Treasury		282,387
Less: Expenses		<u>(293,490)</u>
Operating Results		\$(11,103)
FY 1995 ACTIVITY		<u>TOTAL</u>
Revenues less Funds Returned to Treasury		(105,367)
Less: Expenses		<u>(364,832)</u>
Operating Results		\$(470,199)

NARRATIVE:

This performance measure represents the difference between revenues and expenses in the account. The revenue is offset by the amount of collections that was returned to the Treasury which includes principal and interest. The difference between FY 1995 and FY 1996 operating results is due to the increase in funds returned to the Treasury in FY 1996 over FY 1995.

SOURCE:

General ledgers.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT,
ACCOUNT 4121:**

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio

MILLIONS (\$ X 000,000)

FY 1996 YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	0
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	655
Loans Receivable	<u>7,021</u>
TOTAL ASSETS	7,676

LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,065
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,065

Assets to Liabilities Ratio 1.08:1

FY 1995 YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	11
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	579
Loans Receivable	<u>7,911</u>
TOTAL ASSETS	8,501

LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,882
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,882

Assets to Liabilities Ratio 1.07:1

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT,
ACCOUNT 4121:**

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio

NARRATIVE:

This performance measure shows the make up of the assets and liabilities of the account. The fund balance with Treasury decreased from FY 1995 to FY 1996 due to disbursements made for direct loans. The loan receivables are lower due to the increase in principal collections in FY 1996.

SOURCE:

General ledgers.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY FINANCING DIRECT LOAN
FINANCING ACCOUNT, ACCOUNT 4122:**

FINANCIAL PERFORMANCE: Reimbursement for Articles and Services

THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	\$140,096
FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	\$93,698

NARRATIVE:

This account was established in FY 1992.

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654).

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY FINANCING DIRECT LOAN
FINANCING ACCOUNT, ACCOUNT 4122:**

FINANCIAL CONDITION: Assets to Liabilities Ratio

THOUSANDS (\$ X 000)	
FY 1996 END OF YEAR POSITION	TOTAL
Assets	2,946,635
Liabilities	<u>2,946,571</u>
Equity	64
Asset to Liabilities Ratio	1:1
FY 1995 END OF YEAR POSITION	TOTAL
Assets	2,465,785
Liabilities	<u>2,465,739</u>
Equity	46
Asset to Liabilities Ratio	1:1

NARRATIVE:

This performance measure represents the difference between assets and liabilities. The ratio remains constant from FY 1995 to FY 1996. The dollars increased by the new loan agreements signed in FY 1996. Equity consists of unobligated appropriated funds.

SOURCE:

General ledgers.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY FINANCING DIRECT LOAN
FINANCING ACCOUNT, ACCOUNT 4122:**

Operating Costs

THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Subsidy Expense	59,382
Administrative Expenses	0
Total Operating Expenses	59,382
FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Subsidy Expense	42,774
Administrative Expenses	0
Total Operating Expenses	42,774

NARRATIVE:

This performance measures shows the operating expenses for the account.

SOURCE:

General ledgers.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY FINANCING DIRECT LOAN
FINANCING ACCOUNT, ACCOUNT 4122:**

Operating Results

THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	136,310
Less Operating Expenses	<u>(136,310)</u>
Operating Results	0
FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Appropriations Expensed Plus Revenues	98,243
Less Operating Expenses	<u>(98,243)</u>
Operating Results	0

NARRATIVE:

This performance measures shows the operating results of the account. Net results from operations must equal zero for credit reform loans.

SOURCE:

General ledgers.

Overview _____

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY FINANCING DIRECT LOAN
FINANCING ACCOUNT (FMEDLEA), ACCOUNT 4122:**

FINANCIAL CONDITION: Assets and Liabilities Account Balances and Ratio

THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
<u>ASSETS</u>	
Fund Balance with Treasury	343,744
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal-Intra-government	1,628,851
Non-Federal Accounts Receivable	12,255
Credit Program Receivables	<u>961,785</u>
Total Assets	2,946,635
<u>LIABILITIES</u>	
Accounts Payable, Non-Federal	0
Debt	1,133,783
Other Liabilities	0
Accounts Payable, Federal	<u>1,182,788</u>
Total Liabilities	2,946,571

Assets to Liabilities Ratio 1:1

FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
<u>ASSETS</u>	
Fund Balance with Treasury	500,186
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal-Intra-government	1,487,195
Non-Federal Accounts Receivable	9,355
Credit Program Receivables	<u>469,049</u>
Total Assets	2,465,785

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY FINANCING DIRECT LOAN
FINANCING ACCOUNT (FMEDLEA), ACCOUNT 4122:**

**FINANCIAL CONDITION: Assets and Liabilities Account Balances and Ratio
(Continued)**

LIABILITIES

Accounts Payable, Non-Federal	0
Debt	788,328
Other Liabilities	0
Accounts Payable, Federal	<u>1,677,411</u>
Total Liabilities	2,465,739

Assets to Liabilities Ratio 1:1

NARRATIVE:

This performance measure compares the makeup of the assets and liabilities in the account. The dollar figures increased from FY 1995 to FY 1996 due to the new loan agreements signed in FY 1996.

SOURCE:

General ledgers.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND ACCOUNT

8242:

PROGRAM: New Sales Cases Accepted and Amendments Processed

<u>FY 1996 ACTIVITY</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW FY 1996 SALES CASES	744	513	579	192	2,028
CASE AMENDMENTS-ALL YEARS	241	128	177	7	553
TOTAL	985	641	756	199	2,581

<u>FY 1995 ACTIVITY</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW FY 1995 SALES CASES	745	625	600	250	2,220
CASE AMENDMENTS-ALL YEARS	246	159	151	20	576
TOTAL	991	784	751	270	2,796

NARRATIVE:

This performance measure shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. While amendments are identified to the original case, they are not identified to the fiscal year of the original case/sale. Several amendments during the multiple-year life of any case is considered reasonable.

SOURCE:

DSAA 1200 System.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: Sales Cases Closed

FY 1996 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	991	648	768	174	2,581

FY 1995 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,299	809	736	323	3,167

NARRATIVE:

This measure demonstrates the number of sales cases "closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract, occurs when all the terms have been met. Sales cases must be legally, logistically, and financially "complete" prior to closure.

SOURCE:

DSAA 1200 System.

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: Ordered Value of New & Amended Sales Cases By Major Category

THOUSANDS (\$ X 000)

<u>FY 1996</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	209,467	518,330	2,411,449	0	3,139,245
Missiles	892,268	386,450	335,090	7,566	1,621,374
Ships	515	192,612	0	1,320	194,445
Veh & Wpns	433,952	68,879	5,941	1,333	510,105
Ammunition	124,475	41,357	91,960	419	258,212
Training	137,620	109,585	181,212	1,129	429,546
Misc/Other	<u>2,095,118</u>	<u>851,156</u>	<u>1,309,449</u>	<u>60,748</u>	<u>4,316,470</u>
TOTAL	3,893,414	2,168,369	4,335,101	72,515	10,469,397

<u>FY 1995</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	958,217	704,069	1,036,860	381	2,699,526
Missiles	213,719	506,127	261,747	0	981,594
Ships	1,223	165,292	0	651	167,166
Veh & Wpns	112,767	186,228	145,916	127	445,039
Ammunition	57,460	123,480	55,120	976	237,036
Training	105,128	116,097	198,456	5,725	425,405
Misc/Other	<u>1,186,779</u>	<u>1,554,265</u>	<u>1,290,045</u>	<u>67,362</u>	<u>4,098,452</u>
TOTAL	2,635,293	3,355,558	2,988,144	75,222	9,054,218

NARRATIVE:

This measure classifies the various kinds of execution activities and shows the distribution of major weapons sales cases among the implementing agencies.

SOURCE:

DSAA 1200 System.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT

8242:

PROGRAM: Aged Number of Sales Cases Closed

FY 1996 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	347	148	186	132	813
AGE: 6-10 Years	426	308	355	38	1,127
AGE: 11-15 Years	156	152	179	3	490
AGE: 16-20 Years	56	39	41	1	137
AGE: 20+ Years	6	1	7	0	14
TOTAL	991	648	768	174	2,581

FY 1995 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	463	172	222	239	1,096
AGE: 6-10 Years	584	377	350	67	1,378
AGE: 11-15 Years	196	198	131	16	541
AGE: 16-20 Years	50	51	29	1	131
AGE: 20+ Years	6	11	4	0	21
TOTAL	1,299	809	736	323	3,167

NARRATIVE:

This performance measure reveals the age or "life cycle" of the sales cases closed. The average 6+ year life of a case is directly attributable to its complexity. Major weapon systems procurements, such as aircraft and construction cases, require more time to execute and complete financial close-out than do logistics and training cases.

SOURCE:

DSAA 1200 System.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

PROGRAM: Number of Open Cases as of Fiscal Year End

SEPTEMBER 30, 1996 POSITION	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NUMBER OF CASES OPEN (BASIC)	5,029	4,909	4,188	1,083	15,209
SEPTEMBER 30, 1995 POSITION	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NUMBER OF CASES OPEN (BASIC)	5,333	5,070	4,436	1,077	15,916

NARRATIVE:

This performance measure shows the number of active FMS sales cases at the end of each fiscal year.

SOURCE:

DSAA 1200 System.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND ACCOUNT
8242:

FINANCIAL PERFORMANCE (OBLIGATIONS): Assets to Liabilities Ratio

THOUSANDS (\$ X 000)

FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	\$18,974,209
Liabilities	<u>\$18,974,209</u>
Equity	0
Assets to Liabilities Ratio	1:1
FY 1995 END OF YEAR POSITION	<u>TOTAL</u>
Assets	\$15,794,364
Liabilities	<u>\$15,794,364</u>
Equity	0
Assets to Liabilities Ratio	1:1

NARRATIVE:

This performance measure reflects the relationship between assets and liabilities.

SOURCE:

FMS Trust Fund General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT

8242:

FINANCIAL: Operating Costs

	MILLIONS (\$ X 000)
FY 1996 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	\$0
Less: Total Expenses and Losses	<u>\$0</u>
Cost of Operating a Program	\$0

FY 1995 End of Year Position	<u>TOTAL</u>
Net Operating Costs	
Revenues and Reimbursements	\$0
Less: Total Expenses and Losses	<u>\$0</u>
Cost of Operating a Program	\$0

NARRATIVE:

This performance measure reflects no gain or loss to operate the program.

SOURCE:

FMS Trust Fund General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

**FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT
8242:**

FINANCIAL: Operating Results

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY	<u>TOTAL</u>
Funds Appropriated: Total Revenues and Financing Sources	\$0
Less: Net Operating Costs: Total Expenses	0
Operating Results: Net Position, Ending Balance	\$0

FY 1995 ACTIVITY	<u>TOTAL</u>
Funds Appropriated: Total Revenues and Financing Sources	\$0
Less: Net Operating Costs: Total Expenses	0
Operating Results: Net Position, Ending Balance	\$0

NARRATIVE:

This performance measure shows the operating results; however, the FMS Trust Fund accounts only for amounts on a cash basis in a fiduciary capacity on behalf of its clients.

SOURCE:

FMS Trust Fund General Ledger.

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PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

FINANCIAL CONDITION: Financial Solvency Condition - Trust Fund and

MILLIONS (\$ X 000,000)

BALANCES AS OF SEPTEMBER 30, 1996	<u>TOTAL</u>
Treasury Cash Balance for Account 8242	\$5,887.0
Interest Bearing Accounts	8,605.3
Accounts Receivable	4,482.3
Accounts Payable	<u>-1,077.0</u>
TOTAL	\$17,898.0

BALANCES AS OF SEPTEMBER 30, 1995	<u>TOTAL</u>
Treasury Cash Balance for Account 8242	\$5,462.0
Cash and Other Monetary Assets	7,794.1
Non-Federal Accounts Receivable	2,538.1
Accounts Payable	<u>-182.1</u>
TOTAL	\$15,612.1

NARRATIVE:

Foreign Military Sales (FMS) Trust Fund Accounting is managed by the Defense Finance and Accounting Service (DFAS), Denver Center to ensure sufficient customer funds are on hand to meet the daily cash requirements of the military departments.

During FY 1996, approximately \$14,323.0 million was disbursed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yields a "quick cash ratio" of 1.01:1 for the fund (cash to requirements). The liquidity ratio was 1.19:1 and was calculated as total cash available, plus receivables, minus payables, compared to FY 1996 cash disbursements requirements. The increase in accounts payable is attributable to the normal operation of the trust fund.

SOURCE:

FMS Trust Fund General Ledger.

Overview

PART I: OVERVIEW OF THE REPORTING ENTITY

B. PERFORMANCE MEASURES FOR PART I

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

FINANCIAL PERFORMANCE: Reimbursement of DoD Articles and Services

MILLIONS (\$ X 000,000)	
FY 1996 ACTIVITY	<u>TOTAL</u>
COLLECTIONS IN U.S. DOLLARS	\$14,474.2
FY 1995 ACTIVITY	<u>TOTAL</u>
COLLECTIONS IN U.S. DOLLARS	\$12,469.4

NARRATIVE:

This measure shows the dollar value of all collections into the FMS Trust Fund during the fiscal year. Collections into the Fund for FY 1996 were more than anticipated due to an increase in the number and amount of FMS cases and their required initial cash deposits. Arrearages for FY 1996 were \$626,059 and arrearages for FY 1995 were \$585,912.

SOURCE:

FMS Trust Fund General Ledger.

Overview _____

Principal Statements

***DEFENSE SECURITY
ASSISTANCE AGENCY***

PART II

***PRINCIPAL STATEMENTS
AND
RELATED NOTES***

Principal Statements _____

Principal Statements

***DEFENSE SECURITY
ASSISTANCE AGENCY***

PART II

A.

PRINCIPAL STATEMENTS

Principal Statements _____

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS	1996	1995*
I. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$2,432,725	\$2,436,266
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	34,001	49,201
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	1,628,851	1,487,195
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	667,268	588,006
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	7,982,943	8,380,406
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	135	712
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	50,384	152,885
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	\$12,796,307	\$13,094,671
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$5,886,631	\$5,462,048
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$4,482,308	\$2,538,175
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	8,605,325	7,794,198
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$18,974,264</u>	<u>\$15,794,421</u>
3. Total Assets	<u>\$31,770,571</u>	<u>\$28,889,092</u>
 LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$40,669	\$67,435
(2) Interest Payable	0	0
(3) Debt (Note 16)	4,380,977	4,281,355
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	1,864,117	1,733,393
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	1,050,156	136,709
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>21,787,703</u>	<u>20,070,609</u>
	<u>\$29,123,622</u>	<u>\$26,289,501</u>

The accompanying notes are an integral part of these statements.

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Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$29,123,622</u>	<u>\$26,289,501</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$1,807,872	\$1,468,847
b. Invested Capital	811,052	1,129,580
c. Cumulative Results of Operations	28,025	1,164
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$2,646,949</u>	<u>\$2,599,591</u>
8. Total Liabilities and Net Position	<u>\$31,770,571</u>	<u>\$28,889,092</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
Defense Security Assistance Agency - (Combined)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)**

	<u>1996</u>	<u>1995*</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$3,076,657	\$2,587,877
2. Revenues from Sales of Goods and Services		
a. To the Public	352,072	306,827
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	653,410	680,380
4. Interest, Federal	28,545	31,533
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	594,032	598,359
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(905,164)	(936,305)
8. Total Revenues and Financing Sources	<u>\$3,799,552</u>	<u>\$3,268,671</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$3,087,760	\$3,058,077
10. Cost of Goods Sold (Note 24)		
a. To the Public	297,530	292,061
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	26,922	15,545
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	370,418	372,023
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	<u>\$3,782,630</u>	<u>\$3,737,706</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$16,922	(\$469,035)
17. Plus (Minus) Extraordinary Items (Note 26)	<u>0</u>	<u>0</u>
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$16,922</u>	<u>(\$469,035)</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
Defense Security Assistance Agency - (Combined)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)**

	<u>1996</u>	<u>1995*</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$2,599,591	\$3,608,912
20. Adjustments (Note 27)	(12,928)	(397,908)
21. Net Position, Beginning Balance, as Restated	<u>\$2,586,663</u>	<u>\$3,211,004</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	16,922	(469,035)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>43,364</u>	<u>(142,378)</u>
24. Net Position, Ending Balance	<u><u>\$2,646,949</u></u>	<u><u>\$2,599,591</u></u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4116, 11X4121, 11X4122 - Combined)
Statement of Cash Flows - (Indirect)
For the Period Ended September 30, 1996
(Thousands)

	<u>1996</u>	<u>1995*</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$16,517</u>	<u>(\$470,199)</u>
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	(115,677)	(195,629)
3. Decrease (Increase) in Accounts Receivable	(550,542)	(326,436)
4. Decrease (Increase) in Other Assets	748,544	567,665
5. Increase (Decrease) in Accounts Payable	(18,062)	(15,473)
6. Increase (Decrease) in Other Liabilities	(273,867)	596,089
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(12,927)	(375,908)
10. Total Adjustments	<u>(\$222,531)</u>	<u>\$250,308</u>
11. Net Cash Provided (Used) by Operating Activities	<u>(\$206,014)</u>	<u>(\$219,891)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>\$0</u>	<u>\$0</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$87,977	\$65,217
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	329,177	398,511
b. Transfers of Cash to Others	<u>5,000</u>	<u>5,143</u>
23. Net Appropriations	<u>(\$246,200)</u>	<u>(\$338,437)</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116, 11X4121, 11X4122 - Combined)
 Statement of Cash Flows - (Indirect)
 For the Period Ended September 30, 1996
 (Thousands)

	<u>1996</u>	<u>1995*</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	350,879	375,161
27. Repayments on Loans from the Treasury and the Federal Financing Bank	(251,257)	(292,387)
28. Other Borrowings and Repayments	<u>0</u>	<u>0</u>
29. Net Cash Provided (Used) by Financing Activities	<u>(\$146,578)</u>	<u>(\$255,663)</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	(\$352,592)	(\$475,554)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>965,277</u>	<u>1,440,831</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$612,685</u>	<u>\$965,277</u>
Supplemental Disclosure of Cash Flow Information:		
	<u>1996</u>	<u>1995*</u>
33. Total Interest Paid	\$370,418	\$372,023
Supplemental Schedule of Financing and Investing Activity:		
	<u>1996</u>	<u>1995*</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X1081, 11X1082, 11X1084, 11X1088, 11X1089 - Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

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ASSETS	1996	1995*
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$1,820,040	\$1,470,989
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 4)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	20	40
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	135	712
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$1,820,195</u>	<u>\$1,471,741</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$55	\$57
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X1081, 11X1082, 11X1084, 11X1088, 11X1089 - Combined)
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	\$55	\$57
3. Total Assets	\$1,820,250	\$1,471,798
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	12,037	12,896
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	40
c. Total Liabilities Covered by Budgetary Resources:	\$12,037	\$12,936

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X1081, 11X1082, 11X1084, 11X1088, 11X1089 - Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$12,037</u>	<u>\$12,936</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$1,807,808	\$1,457,698
b. Invested Capital	0	0
c. Cumulative Results of Operations	405	1,164
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$1,808,213</u>	<u>\$1,458,862</u>
8. Total Liabilities and Net Position	<u>\$1,820,250</u>	<u>\$1,471,798</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X1081, 11X1082, 11X1084, 11X1088, 11X1089 - Combined)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	1996	1995*
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$3,028,378	\$2,967,025
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	405	1,164
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	\$3,028,783	\$2,968,189
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$3,028,378	\$2,967,025
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	\$3,028,378	\$2,967,025
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$405	\$1,164
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$405	\$1,164

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X1081, 11X1082, 11X1084, 11X1088, 11X1089 - Combined)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	<u>1996</u>	<u>1995*</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$1,458,862	\$1,240,865
20. Adjustments (Note 27)	<u>0</u>	<u>0</u>
21. Net Position, Beginning Balance, as Restated	\$1,458,862	\$1,240,865
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	405	1,164
23. Plus (Minus) Non Operating Changes (Note 28)	<u>348,946</u>	<u>216,833</u>
24. Net Position, Ending Balance	<u>\$1,808,213</u>	<u>\$1,458,862</u>

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1081)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

ASSETS	1996	1995*
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$32,418	\$27,932
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	46	13
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$32,464</u>	<u>\$27,945</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11 1081)
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u>\$32,464</u>	<u>\$27,945</u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	10,383	9,325
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>\$10,383</u>	<u>\$9,325</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1081)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$10,383</u>	<u>\$9,325</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$22,081	\$18,620
b. Invested Capital	0	0
c. Cumulative Results of Operations	0	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$22,081</u>	<u>\$18,620</u>
8. Total Liabilities and Net Position	<u>\$32,464</u>	<u>\$27,945</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1081)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)**

	<u>1996</u>	<u>1995*</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$31,028	\$25,718
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	\$31,028	\$25,718
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$31,028	\$25,718
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	\$31,028	\$25,718
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$0	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$0	\$0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
Defense Security Assistance Agency - (11 1081)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)**

	<u>1996</u>	<u>1995*</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$18,620	\$22,642
20. Adjustments (Note 27)	<u>0</u>	<u>0</u>
21. Net Position, Beginning Balance, as Restated	\$18,620	\$22,642
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>3,461</u>	<u>(4,022)</u>
24. Net Position, Ending Balance	<u>\$22,081</u>	<u>\$18,620</u>

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1082)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

ASSETS	1996	1995*
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$1,783,824	\$1,436,806
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	20	40
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	323
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$1,783,844</u>	<u>\$1,437,169</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11 1082)
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	\$0	\$0
3. Total Assets	\$1,783,844	\$1,437,169
 LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	479	672
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	40
c. Total Liabilities Covered by Budgetary Resources:	\$479	\$712

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1082)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$479</u>	<u>\$712</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$1,782,960	\$1,435,293
b. Invested Capital	0	0
c. Cumulative Results of Operations	405	1,164
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$1,783,365</u>	<u>\$1,436,457</u>
8. Total Liabilities and Net Position	<u>\$1,783,844</u>	<u>\$1,437,169</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
Defense Security Assistance Agency - (11 1082)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)**

	<u>1996</u>	<u>1995*</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$2,946,332	\$2,933,210
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	405	1,164
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$2,946,737</u>	<u>\$2,934,374</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$2,946,332	\$2,933,210
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	<u>\$2,946,332</u>	<u>\$2,933,210</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$405	\$1,164
17. Plus (Minus) Extraordinary Items (Note 26)	<u>0</u>	<u>0</u>
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$405</u>	<u>\$1,164</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1082)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)**

	1996	1995*
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$1,436,457	\$1,218,165
20. Adjustments (Note 27)	<u>0</u>	<u>0</u>
21. Net Position, Beginning Balance, as Restated	\$1,436,457	\$1,218,165
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	405	1,164
23. Plus (Minus) Non Operating Changes (Note 28)	<u>346,503</u>	<u>217,128</u>
24. Net Position, Ending Balance	<u>\$1,783,365</u>	<u>\$1,436,457</u>

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1084)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

ASSETS	1996	1995*
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$3,798	\$6,251
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	89	376
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	\$3,887	\$6,627
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11 1084)
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	\$0	\$0
3. Total Assets	\$3,887	\$6,627
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	1,175	2,899
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	\$1,175	\$2,899

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1084)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$1,175</u>	<u>\$2,899</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$2,712	\$3,728
b. Invested Capital	0	0
c. Cumulative Results of Operations	0	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$2,712</u>	<u>\$3,728</u>
8. Total Liabilities and Net Position	<u>\$3,887</u>	<u>\$6,627</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1084)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)**

REVENUES AND FINANCING SOURCES	<u>1996</u>	<u>1995*</u>
1. Appropriated Capital Used	\$1,016	\$8,096
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$1,016</u>	<u>\$8,096</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$1,016	\$8,096
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	<u>\$1,016</u>	<u>\$8,096</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$0	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11 1084)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	<u>1996</u>	<u>1995*</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$3,728	\$0
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$3,728</u>	<u>\$0</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(1,016)</u>	<u>3,728</u>
24. Net Position, Ending Balance	<u>\$2,712</u>	<u>\$3,728</u>

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1088)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS	1996	1995*
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$0</u>	<u>\$0</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$55	\$57
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1088)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$55</u>	<u>\$57</u>
3. Total Assets	<u>\$55</u>	<u>\$57</u>
 LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1088)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$0</u>	<u>\$0</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$55	\$57
b. Invested Capital	0	0
c. Cumulative Results of Operations	0	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$55</u>	<u>\$57</u>
8. Total Liabilities and Net Position	<u>\$55</u>	<u>\$57</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1088)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)

	<u>1996</u>	<u>1995*</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$2	\$1
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$2</u>	<u>\$1</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$2	\$1
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	<u>\$2</u>	<u>\$1</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$0	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11 1088)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	<u>1996</u>	<u>1995*</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$57	\$58
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$57</u>	<u>\$58</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(2)</u>	<u>(1)</u>
24. Net Position, Ending Balance	<u><u>\$55</u></u>	<u><u>\$57</u></u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1089)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS	1996	1995*
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$0</u>	<u>\$0</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1089)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u>\$0</u>	<u>\$0</u>
 LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1089)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$0</u>	<u>\$0</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$0	\$0
b. Invested Capital	0	0
c. Cumulative Results of Operations	0	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$0</u>	<u>\$0</u>
8. Total Liabilities and Net Position	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11 1089)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)

	<u>1996</u>	<u>1995*</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$50,000	\$0
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$50,000</u>	<u>\$0</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$50,000	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	<u>\$50,000</u>	<u>\$0</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$0	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11 1089)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)**

	<u>1996</u>	<u>1995*</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$0	\$0
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$0</u>	<u>\$0</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>0</u>	<u>0</u>
24. Net Position, Ending Balance	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116, 11X4121, 11X4122 - Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS	<u>1996</u>	<u>1995*</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$612,685	\$965,277
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	34,001	49,201
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	1,628,851	1,487,195
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	667,248	587,966
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	7,982,943	8,380,406
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	50,384	152,885
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$10,976,112</u>	<u>\$11,622,930</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116, 11X4121, 11X4122 - Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	\$0	\$0
3. Total Assets	\$10,976,112	\$11,622,930
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$1,140	\$2,053
(2) Interest Payable	0	0
(3) Debt (Note 16)	4,380,977	4,281,355
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	1,864,117	1,733,393
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	821	7,039
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	3,890,321	4,458,361
c. Total Liabilities Covered by Budgetary Resources:	\$10,137,376	\$10,482,201

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116, 11X4121, 11X4122 - Combined)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$10,137,376</u>	<u>\$10,482,201</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$64	\$11,149
b. Invested Capital	811,052	1,129,580
c. Cumulative Results of Operations	27,620	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$838,736</u>	<u>\$1,140,729</u>
8. Total Liabilities and Net Position	<u>\$10,976,112</u>	<u>\$11,622,930</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116, 11X4121, 11X4122 - Combined)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)

	<u>1996</u>	<u>1995*</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$48,279	(\$379,148)
2. Revenues from Sales of Goods and Services		
a. To the Public	352,072	306,827
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	653,410	680,380
4. Interest, Federal	28,545	31,533
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	593,627	597,195
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(905,164)	(936,305)
8. Total Revenues and Financing Sources	\$770,769	\$300,482
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$59,382	\$91,052
10. Cost of Goods Sold (Note 24)		
a. To the Public	297,530	292,061
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	26,922	15,545
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	370,418	372,023
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	\$754,252	\$770,681
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$16,517	(\$470,199)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$16,517	(\$470,199)

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4116, 11X4121, 11X4122 - Combined)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	<u>1996</u>	<u>1995*</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$1,140,729	\$2,368,047
20. Adjustments (Note 27)	<u>(12,928)</u>	<u>(397,908)</u>
21. Net Position, Beginning Balance, as Restated	\$1,127,801	\$1,970,139
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	16,517	(470,199)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(305,582)</u>	<u>(359,211)</u>
24. Net Position, Ending Balance	<u>\$838,736</u>	<u>\$1,140,729</u>

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X4116)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

ASSETS	1996	1995
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$268,941	\$453,988
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	34,001	49,201
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	50,384	152,885
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$353,326</u>	<u>\$656,074</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS, Continued	1996	1995
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	\$0	\$0
3. Total Assets	\$353,326	\$656,074
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$1,140	\$2,053
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	821	7,039
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	123,745	124,982
c. Total Liabilities Covered by Budgetary Resources:	\$125,706	\$134,074

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

LIABILITIES, Continued	1996	1995
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$125,706</u>	<u>\$134,074</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$0	\$0
b. Invested Capital	200,000	522,000
c. Cumulative Results of Operations	27,620	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$227,620</u>	<u>\$522,000</u>
8. Total Liabilities and Net Position	<u>\$353,326</u>	<u>\$656,074</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4116)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	1996	1995
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$0	\$0
2. Revenues from Sales of Goods and Services		
a. To the Public	352,072	306,827
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	779
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	\$352,072	\$307,606
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$0	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	297,530	292,061
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	26,922	15,545
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	\$324,452	\$307,606
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$27,620	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$27,620	\$0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4116)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	1996	1995
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$522,000	\$804,000
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$522,000</u>	<u>\$804,000</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	27,620	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(322,000)</u>	<u>(282,000)</u>
24. Net Position, Ending Balance	<u>\$227,620</u>	<u>\$522,000</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116)
 Statement of Cash Flows - (Indirect)
 For the Period Ended September 30, 1996
 (Thousands)

	<u>1996</u>	<u>1995*</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$27,620	\$0
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	(56,295)	(152,855)
3. Decrease (Increase) in Accounts Receivable	15,200	(23,668)
4. Decrease (Increase) in Other Assets	0	0
5. Increase (Decrease) in Accounts Payable	(7,131)	(7,018)
6. Increase (Decrease) in Other Liabilities	157,559	269,121
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	0	0
10. Total Adjustments	<u>\$109,333</u>	<u>\$85,580</u>
11. Net Cash Provided (Used) by Operating Activities	<u>\$136,953</u>	<u>\$85,580</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>\$0</u>	<u>\$0</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$0	\$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	322,000	282,000
b. Transfers of Cash to Others	<u>0</u>	<u>0</u>
23. Net Appropriations	<u>(\$322,000)</u>	<u>(\$282,000)</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4116)
 Statement of Cash Flows - (Indirect)
 For the Period Ended September 30, 1996
 (Thousands)

	1996	1995*
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	<u>(\$322,000)</u>	<u>(\$282,000)</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	(\$185,047)	(\$196,420)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>453,988</u>	<u>650,408</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$268,941</u>	<u>\$453,988</u>
Supplemental Disclosure of Cash Flow Information:		
33. Total Interest Paid	\$0	\$0
Supplemental Schedule of Financing and Investing Activity:		
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4121)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS	1996	1995
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$11,103
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	654,993	578,611
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	7,021,158	7,911,357
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	\$7,676,151	\$8,501,071
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4121)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS, Continued	1996	1995
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	\$0	\$0
3. Total Assets	\$7,676,151	\$8,501,071
 LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	3,247,194	3,493,027
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	51,329	55,982
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	3,766,576	4,333,379
	\$7,065,099	\$7,882,388

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4121)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

LIABILITIES, Continued	1996	1995
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$7,065,099</u>	<u>\$7,882,388</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$0	\$11,103
b. Invested Capital	611,052	607,580
c. Cumulative Results of Operations	0	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$611,052</u>	<u>\$618,683</u>
8. Total Liabilities and Net Position	<u>\$7,676,151</u>	<u>\$8,501,071</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X4121)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)**

	<u>1996</u>	<u>1995</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	(\$11,103)	(\$421,922)
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	607,520	664,784
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	591,134	588,076
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(905,164)	(936,305)
8. Total Revenues and Financing Sources	<u>\$282,387</u>	<u>(\$105,367)</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$0	\$48,278
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	293,490	316,554
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	<u>\$293,490</u>	<u>\$364,832</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$11,103)	(\$470,199)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$11,103)</u>	<u>(\$470,199)</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4121)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	1996	1995
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$618,683	\$1,564,001
20. Adjustments (Note 27)	(12,928)	(397,908)
21. Net Position, Beginning Balance, as Restated	<u>\$605,755</u>	<u>\$1,166,093</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(11,103)	(470,199)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>16,400</u>	<u>(77,211)</u>
24. Net Position, Ending Balance	<u><u>\$611,052</u></u>	<u><u>\$618,683</u></u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4121)
Statement of Cash Flows - (Indirect)
For the Period Ended September 30, 1996
(Thousands)

	1996	1995*
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$11,103)</u>	<u>(\$470,199)</u>
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(76,383)	(78,888)
4. Decrease (Increase) in Other Assets	890,199	715,756
5. Increase (Decrease) in Accounts Payable	(4,653)	(4,209)
6. Increase (Decrease) in Other Liabilities	(566,803)	183,123
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(12,927)	(375,908)
10. Total Adjustments	<u>\$229,433</u>	<u>\$439,874</u>
11. Net Cash Provided (Used) by Operating Activities	<u>\$218,330</u>	<u>(\$30,325)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>\$0</u>	<u>\$0</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$23,577	\$17,300
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	7,177	116,511
b. Transfers of Cash to Others	<u>0</u>	<u>0</u>
23. Net Appropriations	<u>\$16,400</u>	<u>(\$99,211)</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4121)
 Statement of Cash Flows - (Indirect)
 For the Period Ended September 30, 1996
 (Thousands)

	<u>1996</u>	<u>1995*</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	(245,833)	(292,387)
28. Other Borrowings and Repayments	<u>0</u>	<u>0</u>
29. Net Cash Provided (Used) by Financing Activities	<u>(\$229,433)</u>	<u>(\$391,598)</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	(\$11,103)	(\$421,923)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>11,103</u>	<u>433,026</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$0</u>	<u>\$11,103</u>
Supplemental Disclosure of Cash Flow Information:		
	<u>1996</u>	<u>1995*</u>
33. Total Interest Paid	\$293,490	\$316,554
Supplemental Schedule of Financing and Investing Activity:		
	<u>1996</u>	<u>1995*</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4122)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS	1996	1995
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$343,744	\$500,186
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	1,628,851	1,487,195
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	12,255	9,355
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	961,785	469,049
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$2,946,635</u>	<u>\$2,465,785</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4122)
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS, Continued	1996	1995
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u>\$2,946,635</u>	<u>\$2,465,785</u>
 LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	1,133,783	788,328
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	1,812,788	1,677,411
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>\$2,946,571</u>	<u>\$2,465,739</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X4122)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)**

LIABILITIES, Continued	1996	1995
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$2,946,571</u>	<u>\$2,465,739</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$64	\$46
b. Invested Capital	0	0
c. Cumulative Results of Operations	0	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$64</u>	<u>\$46</u>
8. Total Liabilities and Net Position	<u>\$2,946,635</u>	<u>\$2,465,785</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X4122)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)**

	1996	1995
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$59,382	\$42,774
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	45,890	15,596
4. Interest, Federal	28,545	31,533
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	2,493	8,340
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	\$136,310	\$98,243
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$59,382	\$42,774
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	76,928	55,469
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	\$136,310	\$98,243
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$0	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$0	\$0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X4122)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	1996	1995
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$46	\$46
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$46</u>	<u>\$46</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>18</u>	<u>0</u>
24. Net Position, Ending Balance	<u><u>\$64</u></u>	<u><u>\$46</u></u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X4122)
 Statement of Cash Flows
 For the Period Ended September 30, 1996
 (Thousands)

	<u>1996</u>	<u>1995*</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$0</u>	<u>\$0</u>
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	(59,382)	(42,774)
3. Decrease (Increase) in Accounts Receivable	(489,359)	(223,880)
4. Decrease (Increase) in Other Assets	(141,655)	(148,091)
5. Increase (Decrease) in Accounts Payable	(6,278)	(4,246)
6. Increase (Decrease) in Other Liabilities	135,377	143,845
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	0	0
10. Total Adjustments	<u>(\$561,297)</u>	<u>(\$275,146)</u>
11. Net Cash Provided (Used) by Operating Activities	<u>(\$561,297)</u>	<u>(\$275,146)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>\$0</u>	<u>\$0</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$64,400	\$47,917
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	<u>5,000</u>	<u>5,143</u>
23. Net Appropriations	<u>\$59,400</u>	<u>\$42,774</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X4122)
 Statement of Cash Flows
 For the Period Ended September 30, 1996
 (Thousands)**

	<u>1996</u>	<u>1995*</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	350,879	375,161
27. Repayments on Loans from the Treasury and the Federal Financing Bank	(5,424)	0
28. Other Borrowings and Repayments	<u>0</u>	<u>0</u>
29. Net Cash Provided (Used) by Financing Activities	<u>\$404,855</u>	<u>\$417,935</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	(\$156,442)	\$142,789
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>500,186</u>	<u>357,397</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$343,744</u>	<u>\$500,186</u>
Supplemental Disclosure of Cash Flow Information:		
	<u>1996</u>	<u>1995*</u>
33. Total Interest Paid	\$76,928	\$55,469
Supplemental Schedule of Financing and Investing Activity:		
	<u>1996</u>	<u>1995*</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X8242)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS	<u>1996</u>	<u>1995*</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. Other Entity Assets	0	0
m. Total Entity Assets	<u>\$0</u>	<u>\$0</u>
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$5,886,576	\$5,461,991
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X8242)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

ASSETS, Continued	1996	1995*
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$4,482,308	\$2,538,175
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	8,605,325	7,794,198
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$18,974,209</u>	<u>\$15,794,364</u>
3. Total Assets	<u>\$18,974,209</u>	<u>\$15,794,364</u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$39,529	\$65,382
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	1,037,298	116,774
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	17,897,382	15,612,208
c. Total Liabilities Covered by Budgetary Resources:	<u>\$18,974,209</u>	<u>\$15,794,364</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
 Defense Security Assistance Agency - (11X8242)
 Statement of Financial Position
 As of September 30, 1996
 (Thousands)

LIABILITIES, Continued	1996	1995*
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	<u>\$0</u>	<u>\$0</u>
6. Total Liabilities	<u>\$18,974,209</u>	<u>\$15,794,364</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$0	\$0
b. Invested Capital	0	0
c. Cumulative Results of Operations	0	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	<u>\$0</u>	<u>\$0</u>
8. Total Liabilities and Net Position	<u>\$18,974,209</u>	<u>\$15,794,364</u>

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

Department of Defense
Defense Security Assistance Agency - (11X8242)
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	<u>1996</u>	<u>1995*</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$0	\$0
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	\$0	\$0
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$0	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	\$0	\$0
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$0	\$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$0	\$0

The accompanying notes are an integral part of these statements.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Principal Statements

**Department of Defense
 Defense Security Assistance Agency - (11X8242)
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1996
 (Thousands)**

EXPENSES, Continued	1996	1995*
19. Net Position, Beginning Balance, as Previously Stated	\$0	\$0
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$0</u>	<u>\$0</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0
23. Plus (Minus) Non Operating Changes (Note 28)	<u>0</u>	<u>0</u>
24. Net Position, Ending Balance	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements _____

The accompanying notes are an integral part of these statements.

Footnotes

***DEFENSE SECURITY
ASSISTANCE AGENCY***

PART II

B.

***RELATED FOOTNOTES
TO THE PRINCIPAL
STATEMENTS***

Footnotes _____

Footnotes

**Defense Security Assistance Agency
Footnotes to the Principal Statements**

Note 1. Significant Accounting Policies:

A. Basis of Presentation: These financial statements are presented in accordance with DoD Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity, November 8, 1996.

B. Reporting Entity:

Defense Security Assistance Agency (DSAA): The DSAA was established as a separate agency of the Department of Defense (DoD) to administer the nation's security assistance programs. In fulfilling this mission, DSAA has administrative responsibility for the Foreign Military Sales (FMS) Trust Fund, the Special Defense Acquisition Fund (SDAF), the Foreign Military Loan Liquidating Account (FMLLA), and the Foreign Military Financing Direct Loan Financing Account (FMFDLFA). Also, there are other financial accounts that comprise the remainder of the military aspects of the Security Assistance program.

Fiscal year 1996 represents the 5th year that the Defense Security Assistance Agency has prepared, and had audited, financial statements for the FMS Trust Fund (8242), SDAF (4116), and Foreign Military Financing Accounts (4121 and 4122). Fiscal 1996 is the 1st year that DSAA has prepared, and had audited financial statements for the 1080 series of accounts. These are required by the CFO Act and the Government Management Reform Act (GMRA).

The accompanying audited financial statements account for all funds which the DSAA is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The audited financial statements are presented on the accrual basis of accounting as required by DoD accounting policies.

Footnotes

C. Budgets and Budgetary Accounting:

International Military Education and Training (IMET), Treasury Symbol Code 1081: The International Military Education and Training is an appropriated fund account that provides training in the United States, and in some cases, in overseas U.S. military facilities, to selected foreign military and related civilian personnel on a grant basis. Although historically a relatively modest program in terms of cost, the Executive Branch attaches great significance to IMET because the program provides U.S. access to and influences foreign governments.

Foreign Military Financing (FMF), Treasury Symbol Code 1082: The Foreign Military Financing account is an appropriated aid program that makes financing available to certain U.S. friends and allies to procure U.S. defense articles and services. FMF is made available on a grant and a concessional interest rate loan basis.

Military-to-Military Contact Program (MMCP), Treasury Symbol Code 1084: The MMCP is a one year appropriation for Fiscal Year 1995 only, authorized by the Foreign Operations, Export Financing, and Related Programs Appropriations Act (P.L. 103-306). The purpose of this program is to allow the Secretary of Defense to conduct military-to-military contacts and comparable activities that are designed to encourage a democratic orientation of defense establishments and military forces of other countries. In FY 1996, funding for this type of program is back in the Armed Services Appropriation Bill (Department 97) and is not part of the security assistance program.

Assistance for Relocation of Facilities in Israel, Treasury Symbol Code 1088: The Foreign Assistance Act of 1961, as amended, Chapter 7, gave the President authorization to construct air bases in Israel for the Government of Israel in the amount not to exceed \$800 million. Funding was made available for the construction by yearly appropriation acts. The Supplemental Appropriations Act, 1979, provided for necessary expenses for the construction authorized in Chapter 7. The Defense Security Assistance Agency transferred funds (57-11*1088) during past fiscal years to the Air Force to carry out this program. All appropriated funds in this account have been fully liquidated. The remaining funds were added to the account by Israel from grant funds given to them and are accounted for as non-entity assets. The additional funds are to close out remaining contracts.

Unanticipated Needs for Defense of Israel Against Terrorism, Treasury Symbol Code 1089: Fiscal Year 1996 was the initial year of this program which appropriated grant funds in the amount of \$50 million for emergency expenses necessary to meet unanticipated needs for the acquisition and provision of goods and services by Israel for the eradication of terrorism in and around Israel.

Footnotes

Special Defense Acquisition Fund (SDAF), Treasury Symbol Code 4116: The SDAF was authorized by the International Security and Development Cooperation Act of 1981. The SDAF is used as a revolving fund under the control of the DoD to finance the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA, the Foreign Assistance Act (FAA), or other legislation) to eligible friends, allies, and international organizations. The SDAF account is reimbursed through sales and transfers of items carried in the account. In FY 1993, Congress provided the last obligational authority for new procurement which must be obligated by 30 September 1995. Public Law 103-306 provided \$20,000,000 for purposes of closing SDAF, to remain available for obligation until 30 September 1998: Provided, that this authority (\$20,000,000) is not used to initiate new procurements.

Foreign Military Loan Liquidating Account (FMLLA), Treasury Symbol Code 4121: The Credit Reform Act consolidated into this symbol, all assets, liabilities, and equities for loan balances recorded prior to FY 1992 in accounts 11*1082, 11M1083, 11M1084, and 11X4121. This account disburses funds previously made available and accounted for the above referenced accounts.

Foreign Military Financing Direct Loan Financing Account (FMFDLFA), Treasury Symbol Code 4122: The Credit Reform Act resulted in the establishment of this account to provide the vehicle for making disbursements of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans after September 30, 1991. The account uses permanent borrowing authority from the Treasury combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury.

Foreign Military Financing Program Account (FMFPA), Treasury Symbol Code 1085: This appropriated fund account (Federal Credit Reform Act of 1990) was established to provide the funds necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (4122) to make required loan disbursements for approved FMS or commercial sales. For the purpose of this report, FMFPA accounting transactions, to the extent they are relevant to the 4122 account, are included in the data reported for the 4122 account.

Footnotes

FMS Trust Fund, Treasury Symbol Code 8242: The FMS Trust Fund was established as a means of facilitating the purchases of U.S. defense articles and services by friends and allies, as authorized in the Arms Export Control Act (AECA). The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U.S. contractors for new procurement, and to DoD components for sales from stocks. The FMS program operates using contract authority. Contract authority is statutory authority to incur obligations prior to an appropriation (or realization of revenues) for the future payment of such obligations. For the FMS program, 82 Stat 1323 (22U.S.C. 2762) establishes its permanent indefinite authority. The total value of implemented cases is the only limiting factor in the total amount of obligations that can be incurred.

D. Basis of Accounting:

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

SDAF uses the completed contract method of accounting. Under this method, gain or loss is recognized at the time of FMS case closure when costs associated with the contract can be determined.

The DoDIG 1995 CFO Audit Report stated in part "The DFAS-DE did not have reasonably accessible audit trails..." related to cash transactions. This year, extra efforts were taken to explain that accounting and reporting for the Department of Defense is accomplished in a hierarchy of accounting systems. Transaction level accounting is at installation level. Installation level systems produce rolled up installation level reports... and forward these reports to intermediary level, or military department (MILDEP) level systems. MILDEP level systems then further roll up the data to Department of Defense, or departmental level. The data is only forwarded at the level needed to meet the reporting requirements of the organizational level receiving the reports.

All source level data; vouchers, obligation documents, etc., are at the installation level. The DoD audit trail is, and has been for many years, in the form of report submissions... by accounting month. Report audit trails from departmental to installation level systems have been clearly identified. Transaction samples should be taken from installation level systems where voucher numbers and other data is easily accessible.

E. Revenues and Other Financing Sources:

While the Congress appropriates some funds to finance portions of the security assistance program via the Foreign Military Financing appropriation, the majority of sales are paid from customers' deposits in the FMS Trust Fund.

Footnotes

In accordance with the DoD Acting Chief Financial Officer's memorandum of August 31, 1992, the FMS Trust Fund does not recognize nor report revenue. Funds collected into the Trust Fund are in advance of the performance of services or sale of articles. Since various DoD components actually perform the services and sell the articles, recognition of revenue and expense occurs in the financial statements of the applicable DoD components. The financing source for both FMLLA and FMFDLFA are Congressional appropriations.

The DoDIG 1995 CFO Audit Report stated in part, "DoD policy does not permit DFAS-DE to account for revenues and expenses in the FMS Trust Fund financial statements". The Deputy Chief Financial Officer of the department has asked the Office of Management and Budget, "whether the accounts administered by the DSAA are subject to the financial statement preparation and audit requirements... of the CFO Act ..." and states that, "The Department does not believe that it is appropriate to include within the Departments' agency-wide CFO financial statements, the statements for the DSAA". This issue is still pending.

F. Accounting for Intra-Governmental Activities:

The security assistance program, as an activity of DoD, interacts with, and is dependent upon, other financial activities of the government as a whole. The Department, through its Components, sells articles and services to friends and allies under the provisions of the Arms Export Control Act, as amended and the Foreign Assistance Act, as amended. Customers are required to make deposits, in advance, to the FMS Trust Fund. The Trust Fund then reimburses, directly or indirectly, the DoD Components for the cost of administering and executing the program. The indirect reimbursement is in the form of allowing the DoD Components to cite the Trust Fund on appropriate budgetary and expenditure documents. During fiscal year 1996, the Trust Fund reimbursed the DoD Components in the amount of \$14,322 million for articles and services sold under the FMS Program.

G. Funds with U.S. Treasury and Cash:

There are several banking relationships involved in administering, and fiduciary responsibilities associated with, the accounting for security assistance funds. Some funds are held in treasury accounts, others are with the Federal Reserve Bank, and still others are with commercial banks. As of September 30, 1996, the security assistance program has a balance of \$8.32 billion in the U.S. Treasury, and \$8.61 billion on deposit with the Federal Reserve Bank and other commercial banks.

Of the \$5.89 billion in Funds with Treasury attributable to the FMS Trust Fund on September 30, 1996, \$210 million in disbursements were not identified to specific FMS countries until installation level accounting systems posted detail documentation.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

H. Foreign Currency:

All payments and collections involved in the security assistance program are accounted for in U.S. Dollars.

I. Accounts Receivable:

As presented in the consolidated statement of financial position, accounts receivable includes accounts, claims, and refunds receivable. The security assistance program has, as of September 30, 1996, a net accounts receivable as follows:

(Dollars in thousands)

	<u>Amount</u>	<u>Allowance</u>	<u>Total Net</u>
Account Receivable Government	\$5,149,576	\$0	\$5,149,576
Intragovernmental	\$34,001	\$0	\$34,001
Refunds	\$0	\$0	\$0
Claims	\$0	\$0	\$0
Total	\$5,183,577	\$0	\$5,183,577

The FMS Trust Fund's \$4.48 billion portion of the public receivables is based upon its requirement to bill in advance of providing articles and services as established in the Arms Export Control Act of 1976. The amount billed to customers on DD Forms 645, adjusted for both special bill arrangements and individual cases that have collections in excess of financial requirements, is the basis for the trust fund's accounts receivable value.

Since the FMS program is required to operate at a no loss or gain scenario, an allowance for bad debts will only be established upon determination of the State Department.

The increase in 8242 receivables from 1995 of \$2.5 billion to 1996 of \$4.5 billion is attributed to normal operations of the FMS Trust Fund.

J. Loans Receivable:

Loans are accounted for as receivables after funds have been disbursed. The amount of loans obligated but not disbursed are disclosed in Note 7.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

K. Inventories:

The FMS Trust Fund has no inventory. Items are either delivered directly to the FMS customer from the contractor or in the cases of FMS sales from U.S. stocks, they are retained as inventory in the procurement or DBOF accounts of the military departments until transferred to the ownership of the foreign customer.

Inventory in SDAF is controlled and managed by the DoD Components and the SDAF inventory value is acquisition cost as reported to the DSAA by the DoD Components. See Note 8 for specific information.

L. Investments in U.S. Government Securities:

The security assistance program does not invest in U.S. government securities.

M. Property and Equipment:

The funds and accounts making up the security assistance program have no property or equipment. For the FMS trust fund, this policy is established by the DoD Acting Chief Financial Officer memorandum of August 31, 1992.

N. Prepaid and Deferred Charges:

The prepayment for SDAF represents payments made to contractors where inventory has not yet been delivered. All payments are posted as a pre-paid asset. FMS trust fund progress payments to contractors are accounted for using the constructive delivery method and, accordingly, are identified as an expenditure at time of payment.

O. Leases:

Not Applicable

P. Contingencies:

Not Applicable

Q. Accrued Leave:

No fund included in these statements records any accrual of unpaid leave.

Footnotes

R. Equity:

The FMS Trust Fund has no net position. As identified in his memorandum of August 31, 1992, the DoD Acting Chief Financial Officer states that the FMS Trust Fund is a trust fund requiring DoD to act in a fiduciary capacity on behalf of its customers. All revenue, expense, and operational reporting for the program is the responsibility of the Military Departments. Accordingly, the FMS Trust Fund accounts only for dollars in and dollars out on a cash basis and has no net position.

For SDAF, a decapitalization in the amount of \$322,000 thousand was completed via a nonexpenditure transfer authorization, document number 96-SDAF-0001, on September 12, 1996, to account 112814. This reduced the capitalized amount of \$522,000 thousand to \$200,000 thousand. Normally any excess resulting from operation of the fund is transferred to the miscellaneous receipts account. However in 1996, the DSAA Program Manager for SDAF determined that \$27,620 thousand of excess revenue would be returned to the Treasury after the remaining capitalization of the fund was returned. Therefore, the equity in the SDAF account is \$227,620 thousand.

The FMFDLFA equity position consists of unexpended appropriations. The FMLLA and SDAF equity positions consist of invested capital. All equity information is contained in Note 20.

S. Aircraft/Ship Crashes:

Not Applicable

T. Treaties for Use of Foreign Bases:

Not Applicable

U. Comparative Data*:

DFAS-DE/IR prepared the FY 1996 CFO statements with comparative FY 1995 balances for all appropriations reported by DSAA. The DSAA report includes CFO reports for all the administered funds. Prior to 1996 DSAA only provided financial statements with footnotes for the revolving and trust fund types.

Reclassification of assets for appropriation "8242" and newly referenced appropriation "1088" as non-entity assets occurred in FY 1996. They were reported as entity assets in FY 1995.

In FY 1995, DoD had a waiver on submission of Statements of Cash Flows. The Statement of Cash Flows is required on revolving fund types in FY 1996. Prior year 1995 balances were unaudited.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

V. Undelivered Orders:

The security assistance program is obligated for goods and services, which have been ordered but not yet received (undelivered orders) as of September 30, 1996, in the amount of \$26,646,584 thousand; \$24,793,412 thousand is attributable to the FMS trust fund and \$73,322 thousand is attributable to SDAF.

Note 2. Fund Balances with Treasury:

A. Business Operations Fund (DoD Comptroller) and All Other Funds and Accounts:

	<u>Entity Assets</u>				Total
	Trust Fund	Revolving Funds	Appropri- ated Funds	Other Fund Types	
Unobligated Balance					
Available					
Restricted					
Reserve for Antic.					
Resource					
Obligated (not Expensed)		268,941	2,163,784		2,432,725
Unfunded Contract Auth.					
Unused Borrowing Auth.					
Treasury Balance		<u>268,941</u>	<u>2,163,784</u>		<u>2,432,725</u>

B. Not Applicable

C. All Funds and Accounts:

	<u>Non Entity Assets</u>
Beginning Balance	5,462,048
Funds Collected	14,747,240
Funds Disbursed	<u>14,322,657</u>
Ending Balance	5,886,631

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

D. Other Information:

The \$268,941 thousand in A(Obligated-Revolving) is attributable to 11X4116 (SDAF).

\$343,744 thousand of A(Obligated-Appropriated) is applicable to 11X4122. DSAA was instructed by Treasury to classify these funds as appropriated. The remaining \$1,879,076 thousand is applicable to the 11 1080 series accounts.

The amounts in A (Col Trust Fund) are for the FMS Trust Fund. The FMS Trust Fund is governed by 22 USC 2761.2762 and represents Permanent Contract Authority. The amounts presented equal values from the 1996 Year End Closing Statement FMS 2108.

Note 3. Cash, Foreign Currency and Other Monetary Assets:

	<u>Entity Assets</u>	<u>NonEntity Assets</u>
A. Cash		8,605,325
B. Foreign Currency		
C. Other Monetary Assets:		
(1) Gold		
(2) Special Drawing Rights		
(3) U.S. Reserves in the IMF		
(4) Other		
(5) Total, Other Monetary Assets		
D. Total Cash, Foreign Currency and Other Monetary Assets		<u>8,605,325</u>

E. Other Information: There are several banking relationships involved in administering, and fiduciary responsibility, of Security Assistance Funds. Some funds are held in Treasury accounts, others are with the Federal Reserve Bank, and still others are with Commercial Banks. Cash balances are in agreement with the September 30, 1996 Federal Reserve and Commercial Bank balances except for a \$7.5M deposit made by the Government of the Netherlands to their commercial bank account on September 30, 1996. The amount of \$8,605,325 is therefore understated by \$7.5M.

Note 4. Investments:

Not Applicable.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

Note 5. Accounts Receivable, Net:

	<u>Gross Amount Due</u>	<u>Allowance For Estimated Uncollectables</u>	<u>Allowanc e Method Used</u>	<u>Net Amount Due</u>
A. Entity Receivables				
Intragovernmental	34,001		N/A	\$34,001
Governmental	667,268		N/A	\$667,268
B. Non-Entity Receivables				
Intragovernmental				
Governmental	4,482,308		N/A	\$4,482,308

C. Other Information:

The SDAF portion of this value (\$34,001 thousand) represents \$14,001 thousand due from "reverse" military inter-departmental purchase requests (MIPRs), and \$20,000 thousand loan balance of a \$50,000 thousand loan to DLA.

The 8242 portion of 5B(Governmental) is \$4,482,308. The FMS Trust Fund is required to work on a no loss basis, therefore, an allowance for Estimated Uncollectibles does not exist. An actual "Uncollectible" will only be established based on State Department determination.

\$654,993 thousand of 5A(Governmental) is attributable to 11X4121. \$12,255 thousand is attributable to 11X4122.

\$20 thousand of 5A(Governmental) is attributable to 11 1082.

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets:

A. Other Entity Assets:			
1. Intragovernmental			
(1) FMFDLFA		1,628,851	
(2)			
(3)			
Total		<u>\$1,628,851</u>	
2. Governmental			
(1)			
(2)			
(3)			
Total		<u>\$ 0</u>	

Footnotes

B. Other Information: \$1,628,851 of A.1(1) is attributable to 11X4122. This is a right to receive cash through borrowing authority from Treasury.

C. Other Non-Entity Assets:

- 1. Intragovernmental
 - (1)
 - (2)
 - (3)

Total \$ 0

- 2. Governmental
 - (1)
 - (2)
 - (3)

Total \$ 0

D. Other Information:

Note 7. Loans and Loan Guarantees, Non Federal Borrowers:

A. The entity operates the following loan and/or loan guarantee programs:

- (1) Pre-1992 Direct Loan Obligations - DSAA Direct Loans
- (2) Pre-1992 Direct Loan Obligations - DSAA Rescheduled Loans (Direct Portion)
- (3) Pre-1992 Direct Loan Obligations - DSAA Rescheduled Loans (Guaranty Portion)
- (4) Pre-1992 Direct Loan Obligations - FFB Loans
- (5) Pre-1992 Direct Loan Obligations - Subrogated Defaulted FFB Loans
- (6) Pre-1992 Direct Loan Obligations - Subrogated Defaulted Refinanced Loans
- (7) Pre-1992 Direct Loan Obligations - Refinanced Loans
- (8) Pre-1992 Direct Loan Obligations - Commercial Bank Loans
- (9) Post-1991 Direct Loan Obligation - DSAA Direct Loans

Direct loan obligations or loan guarantee commitments made prior to FY 1992, and the resulting direct loans or loan guarantees, are reported net of an allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the loans and loan guarantees is provided in the following sections.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

B. Direct Loans Obligated Prior to FY 1992:
(in thousands)

Loan Program	Loans and Interest Receivable, Gross	Allowance for Est. Uncoll. Loans & Interest	Loans and Interest Receivable, Net	Foreclosed Property	Value of Assets Related to Direct Loans
A(1)	3,103,165	0	3,103,165	0	0
A(2)	212,824	0	212,824	0	0
A(3)	384,846	0	384,846	0	0
A(4)	3,247,194	0	3,247,194	0	0
A(5)	73,128	0	73,128	0	0
TOTAL	7,021,158	0	7,021,158	0	0

C. Direct Loans Obligated after FY 1991:

Loan Program	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Net Present Value of Assets Related to Direct Loans
A(8)	1,098,654	0	0	136,869	961,785
TOTAL	1,098,654	0	0	136,869	961,785

D. Defaults on Pre-1992 Loan Guarantees: None

NOTE: FFB loans are considered Direct Loans, however \$73,128 thousand of loan principal was defaulted to FFB by various countries thus DSAA paid FFB the defaulted principal.

E. Defaults on Post-1991 Loan Guarantees: None

F. Liability for Loan Guarantees: None

NOTE: DSAA expects to collect 100% of its defaulted guaranty loans.

G. Subsidy Expense for Post-1991 Loans and Loan Guarantees:

1. Current Year's Direct Loans
(in thousands)

Loan Program	Interest Differential	Defaults	Fees	Other	Total
(1) FY 1996 FMFDLFA	\$(39,453)	\$98,835	\$0	\$0	\$59,382

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

2. Direct Loan Modifications and Re-estimates:

Loan		(in thousands)	
Programs	Modifications	Re-estimates	Total
(1) FY 1992	\$0	\$0	\$0
(2) FY 1993	\$0	\$0	\$0
(1) FY 1994	\$0	\$0	\$0
(2) FY 1995	\$0	\$0	\$0

3. Total Direct Loan Subsidy Expenses:

Loan Program	
(1) FY 1996 FMFDLFA	\$59,382
(2) FY 1995 FMFDLFA	\$42,774
(1) FY 1994 FMFDLFA	\$38,118
(2) FY 1993 FMFDLFA	\$136,946
(3) FY 1992 FMFDLFA	\$50,102
Total	\$327,322

H. Subsidy Expense for Post-1991 Loan Guarantees.

1. Current Year's Loan Guarantees: None
2. Loan Guarantee Modifications and Re-estimates: None
3. Total Loan Guarantees Subsidy Expense: None

I. Administrative Expense: None

J. Other Information

Face Value of Guaranteed Refinanced Loans	(thousands)
DSAA Guaranteed Portion of Refinanced Loans (90% of Face Value)	6,129,592
Portion of Refinanced Loans Secured by Country Deposits in the Financing Bank (10% Face Value)	5,516,633
Undisbursed Balances Available for New Direct Loan Receivables	612,959
	0

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

Note 8. Inventory, Net:

	<u>Inventory Amount</u>	<u>Allowance For Losses</u>	<u>Inventory Net</u>	<u>Valuation Method</u>
A. Inventory Categories:				
(1) Held for Current Sale	50,384		50,384	
(2) Held in Reserve for Future use				
(3) War Reserve Materiel				
(4) Excess, Obsolete, Unserviceable				
(5) Held for Repair				
Total	<u>50,384</u>		<u>50,384</u>	

B. Restrictions on Inventory Use, Sale, or Disposition:

SDAF inventory must be used for transfers in security assistance programs unless approved by SECDEF for sale to Military Departments.

C. Other Information:

All inventory belongs to SDAF. The valuation, as reported by the military departments, is the acquisition cost of items on hand at installation level not identified to a specific sale to a foreign customer. In FY1996, \$26,922 thousand of unsalable equipment was written off.

Note 9. Work in Process:

Not Applicable.

Note 10. Operating Materials and Supplies (OM&S), Net:

Not Applicable.

Note 11. Stockpile Materials Net:

Not Applicable.

Note 12. Seized Property:

Not Applicable.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

Note 13. Forfeited Property, Net:

Not Applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net:

Not Applicable.

Note 15. Property, Plant and Equipment, Net:

Not Applicable.

Note 16. Debt:

The FMLLA (Treasury Symbol Code 4121) portion of the security assistance program has borrowed funds from the Treasury for disbursement under a valid loan program.

The FMFDLFA (Treasury symbol Code 4122) program has borrowed funds from the Treasury for disbursements for valid loan programs under credit reform.

Liabilities Covered by Budgetary Resources	(in thousands)				
	Beginning Balance	New Borrowing	Repayments	Ending Balance	Refinance
A. Intragovernment Debt:					
(1) Borrowing from the Treasury	788,328	350,879	5,424	1,133,783	0
(2) Borrowing from Fed Financing Bank	3,493,027	0	245,833	3,247,194	0
(3) Borrowing from Other Fed Agencies	0	0	0	0	0
Total Intragovernmental Debt	4,281,355	350,879	251,257	4,380,977	0
Liabilities Not Covered By Budgetary Resources					
B. (1) Public Debt: N/A					
(2) Agency Debt: N/A					
C. Total Liabilities for Debt:					
Not Covered by Budgetary Resc: N/A					
D. Total Debt	4,281,355	350,879	251,257	4,380,977	0

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

Note 17. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liab.	Current Liabilities	Total
1. Intragovernmental			
(1)FMLLA		51,329	51,329
(2)FMFDLFA-Bor		1,628,850	1,628,850
(3)FMFDLFA-Sub		183,938	183,938
Total		1,864,117	1,864,117
2. Governmental			
(1) SDAF	123,745		123,745
(2) 8242		13,415,074	13,415,074
(3) 8242		4,482,308	4,482,308
(4) FMLLA	3,766,576		3,766,576
Total	3,890,321	17,897,382	21,787,703

B. Other Information:

The SDAF portion of this element was computed by using Advances to contractors and unearned revenue in accordance with the completed contract method of accounting.

Unearned Revenue (GLAC 2310)	1,075,818
Advances to Contractor (GLAC 1400)	952,073
Other Non-Federal Liabilities	123,745

Amounts in A2(2) and A2(3), 8242 are in accordance with the Arms Export Control Act of 1976. Funds collected into the Trust Fund are in advance of the performance of services or sale of goods. Amounts are the values expected to be expended by the U.S. Government on behalf of foreign customers.

The FMFDLFA value represents future repayments of borrowings from Treasury for credit reform loans.

C. Other Liabilities Not Covered by Budgetary Resources: Not Applicable.

D. Other Information. Not Applicable.

Note 18. Leases:

Not Applicable.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

Note 19. Pensions and Other Actuarial Liabilities:

Not Applicable.

Note 20. Net Position:

(in thousands)

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended Appropriations				
(1) Unobligated				
a. Available			28,022	28,022
b. Unavailable				
(2) Undelivered Orders			1,779,850	1,779,850
B. Invested Capital	811,052			811,052
C. Cumulative Results of Operations	27,620		405	28,025
D. Other				
E. Future Funding Requirements				
F. Total	<u>838,672</u>	<u>0</u>	<u>1,808,277</u>	<u>2,646,949</u>

G. Other Information:

(1) \$200,000 thousand of B, Invested Capital, is attributable to SDAF. The \$27,620 in C is also attributable to SDAF. Normally any excess resulting from the operation of the fund is transferred to the Treasury miscellaneous receipts account. However, in 1996, the DSAA Program Manager for SDAF determined that \$27,620 thousand of excess revenue would be returned to the Treasury after the remaining capitalization of the fund is returned. In FY1996 \$322,000 thousand was returned to the Treasury miscellaneous receipts account 112814 (Repayments of Investments and Recoveries).

(2) FMLLA is not considered a revolving fund. It is a liquidating fund. It is being classified as a revolving fund since the Treasury is classifying it as a revolving fund for the FACTS reporting. \$611,052 thousand of B are attributable to FMLLA.

(3) \$64 thousand of Appropriated Funds A is attributable to FMFDLFA. The unobligated balance remaining from FY 1992 is \$46 thousand, and FY1996 for \$18 thousand.

Note 21. Taxes:

Not Applicable.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

		Footnotes	
Note 22. Other Revenues and Financing Sources:			
		<u>1996</u>	<u>1995</u>
A.	Other Revenue and Financing Sources:		
	(1) SDAF	0	779
	(2) FMLLA	591,134	588,076
	(3) FMFDLFA	2,493	8,340
	(4) 1082	405	1,164
B.	Other Information:		
	(FMLLA) Amount is the Contra-Revenue-Collected for Others and deposited to Treasury. (FMFDLFA) Had insufficient funds to make annual interest payment to treasury. Per Treasury Bulletin No. 93-05, additional borrowing was made to cover interest payments.		
Note 23. Program or Operating Expenses:			
		<u>1996</u>	<u>1995</u>
A.	Operating Expenses by Object Classification:		
	1. Personal Services and Benefits		
	2. Travel and Transportation		
	3. Rental, Communication and Utilities		
	4. Printing and Reproduction		
	5. Contractual Services		
	6. Supplies and Materials		
	7. Equipment no Capitalized		
	8. Grants, Subsidies and Contributions	3,087,760	2,967,025
	9. Insurance Claims and Indemnities		
	10. Other		
	11. Total Expenses by Object Class	3,087,760	2,967,025
B.	Not Applicable.		
C.	FMFDLFA incurred \$59,382 thousand of loan subsidy expense. The remaining \$3,028,378 thousand is normal grant execution for the 1080 series accounts.		

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Footnotes

Note 24. Cost of Goods Sold:

(in thousands)

Cost of Material Sold from Inventory	
(1) Beginning Inventory L.A.C.	\$ 152,885
(a) Plus: Purchases at Cost	190,632
(b) Less: Beginning Allowance for Holding Gains/Losses	0
(c) Plus: Inventory Gains	0
(d) Minus: Inventory Losses	0
(2) Less: Ending Inventory L.A.C	50,384
(a) Plus: Ending Allowance for Holding Gains/Losses	0
(3) Plus Operating Expenses	4,397
Cost of Goods Sold	\$297,530

Other Information.

All Cost of Goods Sold (CGS) relate to the Special Defense Acquisition Fund (SDAF). Since SDAF uses the completed contract method of accounting, all costs associated with a contract are identified at the time of an FMS case closure (see note 1 D). Line 1a represents the CGS of those FMS cases closed during FY 1996 plus the net change in ending inventory between FY 1995 and FY 1996 (see note 8). Line 3 represents the FY 1996 contract administration costs that are directly related to the sale of SDAF items.

Note 25. Other Expenses:

Not Applicable.

Note 26. Extraordinary Items:

Not Applicable.

Note 27. Prior Period Adjustments:

A. Prior Period Adjustments:	
(1) FMLLA	<u>\$(12,928)</u>
Total	<u>\$(12,928)</u>

B. Other Information: FMLLA made an adjustment to correct posting made during Jordan's Loan Write-off. The adjustment was between Jordan's Direct Rescheduled Loans and Jordan's Guaranteed Rescheduled Loans.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

		Footnotes
Note 28. Non-Operating Changes - (Transfers and Donations):		
(in thousands)		
	<u>1996</u>	<u>1995</u>
A. Increases:		
(1) Transfers-In:		
(a) From Treasury	16,418	39,300
(3) Other Increases		
(4) Total Increases	<u>16,418</u>	<u>39,300</u>
B. Decreases		
(1) Transfers-Out:		
(a) To Treasury	322,000	398,511
(2) Donations		
(3) Other Decreases		
(4) Total Decreases	<u>322,000</u>	<u>398,511</u>
C. Net Transfers	<u>(305,582)</u>	<u>(359,211)</u>
 D. Other Information: Line A(1)(a) \$16,400 thousand is attributable to the Foreign Military Loan Liquidating Account (FMLLA) to pay default claims on guaranteed loans made prior to FY 1992. \$18 thousand is attributable to the Foreign Military Financing Direct Loan Financing Account (FMFDLFA), Subsidy available un-appropriated. The amount on B(1)(a) is the amount of authority to SDAF cash which was transferred to the Treasury's receipt account by DSAA during FY1994 as part of the de-capitalization of the fund.		
 Note 29. Intrafund Eliminations:		
Not Applicable.		
 Note 30. Contingencies:		
Not Applicable.		
 Note 31. Other Disclosures:		
The Accounts Payable amount in section 4, line B(1) of the Statement of Financial Position for 11X8242 (FMS Trust Fund) does not include amounts for Navy. We have estimated the Payables for this entity as \$151.5 million. Changes to the reporting process are being made and should be in effect in early FY97.		
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Appendix D. Disclaimer of Opinion and Financial Statements Audited

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UNMATCHED DISBURSEMENTS, NEGATIVE UNLIQUIDATED OBLIGATIONS, AND TOTALS.

DSAA (11X8242)	SEP 1995	SEP 1996	CHANGE	% CHANGE
Unmatched Disbursements	NA*	330,000	NA*	NA*
Negative Unliquidated Obligations	NA*	175,000	NA*	NA*
Totals	NA*	505,000	NA*	NA*

*Comparative figures for fiscal year 1995 are not available, therefore, change and percentage change amounts have not been provided.

The Defense Finance and Accounting Service has reported material weaknesses in system controls. This is due to the numerous systems involved in the Department of Defense Finance and Accounting for Security Assistance where integration and reconciliations required result in inefficiencies. This has been reported in accordance with "United States Code, title 31, section 3512 (formerly the Federal Managers' Financial Integrity Act of 1982, Public Law 97-225)". These systemic problems resulted in \$210 million in disbursements not being identified to specific foreign customers as of September 30, 1996 (Note 1G). This is an improvement of \$160.5 million from the September 30, 1995 position, however, still constitutes a significant problem which we are working to resolve. There was also \$505 million in problem disbursements (excluding intransit disbursements) reported at the field level as of September 30, 1996.

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***DEFENSE SECURITY
ASSISTANCE AGENCY***

PART III

***SUPPLEMENTAL FINANCIAL
AND
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**FY 1996 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY**

**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

New Purchase Orders Issued

FY 1996 ACTIVITY:

Types of Orders Issued:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
Major End Items	0	0	0	0	0	0
Support for Major End Items	4	1	0	0	0	5
Investments	0	0	0	0	0	0
Ammunition	0	0	0	0	0	0
Miscellaneous/Other	0	0	0	0	0	0
TOTAL	4	1	0	0	0	5

FY 1995 ACTIVITY:

Types of Orders Issued:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
Major End Items	0	0	0	0	0	0
Support for Major End Items	1	0	0	0	0	1
Investments	0	0	0	0	0	0
Ammunition	0	0	0	0	0	0
Miscellaneous/Other	0	0	0	0	1	1
TOTAL	1	0	0	0	1	2

FY 1994 ACTIVITY:

Types of Orders Issued:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
Major End Items	3	5	1	3	0	12
Support for Major End Items	3	0	2	0	0	5
Investments	0	0	0	0	0	0
Ammunition	3	0	0	0	0	3
Miscellaneous/Other	0	0	0	0	1	1
TOTAL	9	5	3	3	1	21

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

New Purchase Orders Issued (Continued)

FY 1993 ACTIVITY:

Types of Orders Issued:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
Major End Items	11	5	3	3		22
Support for Major End Items	3	0	1	0	0	4
Investments	0	0	0	0	0	0
Ammunition	3	0	0	0	0	3
Miscellaneous/Other	0	0	0	0	1	1
TOTAL	17	5	4	3	1	30

FY 1992 ACTIVITY:

Types of Orders Issued:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
Major End Items	27	5	5	5	0	42
Support for Major End Items	4	2	17	0	0	23
Investments	0	1	0	0	0	1
Ammunition	0	0	0	0	0	0
Miscellaneous/Other	0	0	0	0	2	2
TOTAL	31	8	22	5	2	68

FY 1991 ACTIVITY:

Types of Orders Issued:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
Major End Items	13	6	0	0	0	19
Support for Major End Items	22	4	0	0	0	26
Investments	4	4	0	0	0	8
Ammunition	9	0	0	0	0	9
Miscellaneous/Other	9	12	0	1	0	22
TOTAL	57	26	0	1	0	84

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

New Purchase Orders Issued (Continued)

NARRATIVE:

This indicator compares the number of new purchase orders placed from FY 1996 through FY 1991 to the Military Departments or DoD Agencies. This amount will continue to decrease due to the decapitalization of the fund. Numbers for FY 1996 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Number of Purchase Orders Issued, New and Revised

FY 1996 ACTIVITY:	<u>TOTAL</u>
Military Interdepartmental Purchase Requests (MIPRs) Issued	96

FY 1995 ACTIVITY:	<u>TOTAL</u>
Military Interdepartmental Purchase Requests (MIPRs) Issued	200

FY 1994 ACTIVITY:	<u>TOTAL</u>
Military Interdepartmental Purchase Requests (MIPRs) Issued	166

FY 1993 ACTIVITY:	<u>TOTAL</u>
Military Interdepartmental Purchase Requests (MIPRs) Issued	280

FY 1992 ACTIVITY:	<u>TOTAL</u>
Military Interdepartmental Purchase Requests (MIPRs) Issued	376

FY 1991 ACTIVITY:	<u>TOTAL</u>
Military Interdepartmental Purchase Requests (MIPRs) Issued	275

NARRATIVE:

This performance indicator reflects the number of MIPRs that were issued with current and prior year obligation authority and the number of revisions to existing MIPRs. The FY 1996 through FY 1991 amounts are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Purchase Orders Issued

MILLIONS (\$ X 000,000)

FY 1996 ACTIVITY	<u>TOTAL</u>
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	\$0.348
FY 1995 ACTIVITY	<u>TOTAL</u>
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	\$3.58
FY 1994 ACTIVITY	<u>TOTAL</u>
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	\$87.8
FY 1993 ACTIVITY:	<u>TOTAL</u>
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	\$149.9
FY 1992 ACTIVITY:	<u>TOTAL</u>
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	\$538.0
FY 1991 ACTIVITY:	<u>TOTAL</u>
Value of Military Interdepartmental Purchase Requests (MIPRs) Issued	\$322.0

NARRATIVE:

This performance indicator provides the value of all MIPRs. The amounts for future Fiscal Years (FYs) will continue to decline due to the decapitalization of the fund. Amounts for FY 1996 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Number of Purchase Orders Closed

FY 1996 ACTIVITY	TOTAL
(Aged in Years)	
0-3	1
4-6	25
7-9	27
10+	<u>37</u>
TOTAL	90
FY 1995 ACTIVITY	TOTAL
(Aged in Years)	
0-3	1
4-6	24
7-9	35
10+	<u>10</u>
TOTAL	70
FY 1994 ACTIVITY	TOTAL
(Aged in Years)	
0-3	61
4-6	46
7-9	12
10+	4
TOTAL	123
FY 1993 ACTIVITY	TOTAL
(Aged in Years)	
0-3	0
4-6	0
7-9	0
10+	<u>0</u>
TOTAL	0

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Number of Purchase Orders Closed (continued)

FY 1992 ACTIVITY	TOTAL
(Aged in Years)	
0-3	17
4-6	95
7-9	348
10+	19
TOTAL	479
FY 1991 ACTIVITY	TOTAL
(Aged in Years)	
0-3	0
4-6	1
7-9	1
10+	0
TOTAL	2

NARRATIVE:

This performance indicator shows the number of purchase orders that were closed and their relative age. There were no purchase orders closed for Fiscal Year (FY) 1993. Since the decision to decapitalize the fund, we have revised the procedures for closing purchase orders to ensure that no liabilities remain after the purchase order is closed. Numbers for FY 1996 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Purchase Orders Closed

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY:	<u>TOTAL</u>
Closed Purchase Orders	190,404.7
FY 1995 ACTIVITY:	<u>TOTAL</u>
Closed Purchase Orders	110,887.8
FY 1994 ACTIVITY:	<u>TOTAL</u>
Closed Purchase Orders	82,995.0
FY 1993 ACTIVITY:	<u>TOTAL</u>
Closed Purchase Orders	0.0
FY 1992 ACTIVITY:	<u>TOTAL</u>
Closed Purchase Orders	600,800.0
FY 1991 ACTIVITY:	<u>TOTAL</u>
Closed Purchase Orders	2,580.3

NARRATIVE:

This performance indicator shows the value of Purchase Orders Closed during the fiscal year. There were no purchase orders closed for FY 1993. Since the decision to decapitalize the fund, we have revised the procedures for closing purchase orders to ensure that no liabilities remain after the purchase order is closed. The values for FY 1996 through FY 1991 are provided for comparison.

SOURCE:

DSAA Special Defense Acquisition Fund Management Information System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Sales

MILLIONS (\$ X 000,000)

FY 1996 ACTIVITY:

Type Sale & Customer	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
FMS Cases	77.4	19.2	31.9	.4	0.0	128.9
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	<u>3.8</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>3.8</u>
TOTAL	81.2	19.2	31.9	.4	0.0	132.7

FY 1995 ACTIVITY:

Type Sale & Customer	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
FMS Cases	99.3	47.9	0.8	2.4	0.0	150.4
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>
TOTAL	99.5	47.9	0.8	2.4	0.0	150.6

FY 1994 ACTIVITY:

Type Sale & Customer	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
FMS Cases	199.9	45.5	1.2	8.2	0.0	254.8
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	<u>.5</u>	<u>2.8</u>	<u>0.0</u>	<u>.4</u>	<u>0.0</u>	<u>3.7</u>
TOTAL	200.4	48.3	1.2	8.6	0.0	258.5

FY 1993 ACTIVITY:

Type Sale & Customer	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
FMS Cases	117.2	74.2	1.3	5.1	0.0	197.8
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	<u>1.1</u>	<u>0.0</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>1.3</u>
TOTAL	118.3	74.2	1.5	5.1	0.0	199.1

FY 1992 ACTIVITY:

Type Sale & Customer	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
FMS Cases	111.4	97.1	33.4	6.1	0.0	248.0
Replenishment	0.0	0.0	0.0	0.0	0.0	0.0
Direct	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.7</u>	<u>0.0</u>	<u>0.9</u>
TOTAL	111.6	97.1	33.4	6.8	0.0	248.9

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Sales (continued)

FY 1991 ACTIVITY:

Type Sale & Customer	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>NSA</u>	<u>OTHER</u>	<u>TOTAL</u>
FMS Cases	133.8	34.5	3.5	5.3	0.0	177.1
Replenishment	2.0	5.5	0.0	1.1	0.0	8.6
Direct	<u>10.1</u>	<u>0.3</u>	<u>0.0</u>	<u>9.6</u>	<u>0.0</u>	<u>20.0</u>
TOTAL	145.9	40.3	3.5	16.0	0.0	205.6

NARRATIVE:

This indicator shows the dollar value of Purchase Orders Sold and is stratified into three different types of sales. The amounts for FY 1996 through FY 1991 are provided for comparison.

DEFINITIONS:

FMS CASES: Sales to foreign customers or U.S. Military Departments through either Letters of Offer/Acceptance (LOA's) or "reverse" Military Interdepartmental Purchase Requests (MIPRs).

REPLENISHMENT: Sales to U.S. Military Departments to replenish their inventories for items diverted for urgent FMS requirements.

DIRECT: Sales to U.S. Military Departments approved by SECDEF.

SOURCE:

DSAA Special Defense Acquisition Information Management System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of New Obligations

	MILLIONS (\$ X 000,000)				
	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1996 ACTIVITY:					
Value	\$ (2.1)	\$1.9	\$ 0.0	\$.4	\$.2
FY 1995 ACTIVITY:					
Value	\$ 1.2	\$12.3	\$ 0.0	\$5.9	\$19.4
FY 1994 ACTIVITY:					
Value	\$10.5	\$31.8	\$15.5	\$.1	\$57.9
FY 1993 ACTIVITY:					
Value	\$140.5	\$66.9	\$6.7	\$8.9	\$223.0
FY 1992 ACTIVITY:					
Value	\$172.0	\$80.4	\$9.6	\$12.1	\$274.1
FY 1991 ACTIVITY:					
Value	\$206.3	\$44.8	\$1.0	\$21.6	\$273.7

NARRATIVE:

This performance indicator measures new obligations placed during the fiscal year. The amount will decrease in future Fiscal Years (FYs) due to the decapitalization of the fund. The amounts for FY 1996 through FY 1991 are provided for comparison.

SOURCE:

SDAF General Ledger.

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of New Obligations Liquidated, Fiscal Year End Position

	MILLIONS (\$ X 000,000)				
	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
1996 ACTIVITY: VALUE	\$13.7	\$13.6	\$5.4	\$3.1	\$35.8
1995 ACTIVITY: VALUE	\$90.6	\$54.0	\$10.8	\$4.5	\$159.9
1994 ACTIVITY: VALUE	\$107.8	\$58.9	\$6.0	\$6.5	\$179.2
FY 1993 ACTIVITY: VALUE	\$187.6	\$46.2	\$17.9	\$5.3	\$257.0
FY 1992 ACTIVITY: VALUE	\$211.8	\$51.6	\$20.7	\$6.9	\$291.0
FY 1991 ACTIVITY: VALUE	\$79.5	\$37.9	\$29.8	\$20.9	\$168.1

NARRATIVE:

This performance indicator shows the value of obligations liquidated, i.e., disbursements made during the Fiscal Year (FY). The amounts for FY 1996 through 1991 are provided for comparison.

SOURCE:

SDAF General Ledger.

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Unsold Purchases (Material/Inventory) as of Fiscal Year End

MILLIONS (\$ X 000,000)

	ARMY	NAVY	USAF	NSA OTHER	TOTAL
September 30, 1996					
Position:					
Value	\$47.5	\$2.7	\$0.0	\$2	\$50.4
September 30, 1995					
Position:					
Value	\$124.1	\$24.6	\$2.8	\$1.4	\$152.9
September 30, 1994					
Position:					
Value	\$170.6	\$112.1	\$1	\$3.7	\$286.5
September 30, 1993					
Position:					
Value	\$136.8	\$37.4	\$1.5	\$6.9	\$182.6
September 30, 1992					
Position:					
Value	\$128.6	\$44.1	\$3.3	\$3.3	\$179.3
September 30, 1991					
Position:					
Value	\$242.5	\$100.1	\$24.8	\$5.7	\$422.1

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Value of Unsold Purchases (Material/Inventory) as of Fiscal Year End (Continued)

NARRATIVE:

This performance indicator shows the actual value of finished inventory unsold and held as of the end of the Fiscal Year (FY). The amounts for FY 1996 through FY 1992 represent a physical inventory value as provided by the Military Departments. The FY 1991 amounts were based on a "constructive" inventory position.

SOURCE:

Military Departments

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Ratio of Unsold Purchases to Total Fund Authority as of Fiscal Year End

MILLIONS (\$ X 000,000)

FY 1996 ACTIVITY	TOTAL
SEPTEMBER 30, 1996 POSITION	
Unsold Purchases (Finished Inventory)	\$50.4
TOTAL FUND AUTHORITY	\$200.0
RATIO	25.2%
FY 1995 ACTIVITY	TOTAL
SEPTEMBER 30, 1995 POSITION	
Unsold Purchases (Finished Inventory)	\$152.9
TOTAL FUND AUTHORITY	\$522.0
RATIO	29.3%
FY 1994 ACTIVITY	TOTAL
SEPTEMBER 30, 1994 POSITION	
Unsold Purchases (Finished Inventory)	\$286.5
TOTAL FUND AUTHORITY	\$1070.0
RATIO	26.8%
FY 1993 ACTIVITY	TOTAL
SEPTEMBER 30, 1993 POSITION	
Unsold Purchases (Finished Inventory)	\$ 182.6
TOTAL FUND AUTHORITY	\$1.070.0
RATIO	17.1%

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

**Ratio of Unsold Purchases to Total Fund Authority as of Fiscal Year End
(continued)**

FY 1992 ACTIVITY	TOTAL
SEPTEMBER 30, 1992 POSITION	
Unsold Purchases (Finished Inventory)	\$ 179.4
 TOTAL FUND AUTHORITY	 \$1,070.0
 RATIO	 16.8%
 FY 1991 ACTIVITY	 TOTAL
SEPTEMBER 30, 1991 POSITION	
Unsold Purchases (Finished Inventory)	\$422.1
 TOTAL FUND AUTHORITY	 \$1070.0
 RATIO	 39.4%

NARRATIVE:

This performance indicator shows the relationship between the unsold purchases and the total fund authority. The ratio is calculated by dividing the value of unsold purchases by the total of fund authority provided under the U.S. Statute. The amounts for FYs 1996 through FY 1992 represent a physical inventory value as provided by the Military Departments. The FY 1991 amount was based on a "constructive" inventory position.

SOURCE:

Military Departments (for FY 1996 through FY 1992).

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Gain or Loss on Cases Closed During the Fiscal Year

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY:	<u>TOTAL</u>
Gross Value (Gain)	\$54,541.8
Unsalable Inventory Assets Written Off	<u>-26,921.8</u>
Net Gain	\$27,620.0
FY 1995 ACTIVITY:	<u>TOTAL</u>
Gross Value (Gain)	\$15,545.1
Unsalable Inventory Assets Written Off	<u>-15,545.1</u>
Net Gain	\$0.0
FY 1994 ACTIVITY:	<u>TOTAL</u>
Gross Value (Gain)	\$22,256.9
Unsalable Inventory Assets Written Off	<u>-22,256.9</u>
Net Gain	\$0.0
FY 1993 ACTIVITY:	<u>TOTAL</u>
Gross Value (Gain)	\$14,804.6
Unsalable Inventory Assets Written Off	<u>-14,804.6</u>
Net Gain	\$0.0
FY 1992 ACTIVITY:	<u>TOTAL</u>
Gross Value (Gain)	\$9,722.3
Unsalable Inventory Assets Written Off	<u>-8,091.0</u>
Net Gain	\$1,631.3
FY 1991 ACTIVITY:	<u>TOTAL</u>
Gross Value (Gain)	\$11,156.7
Unsalable Inventory Assets Written Off	<u>0.0</u>
Net Gain	\$11,156.7

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

SPECIAL DEFENSE ACQUISITION FUND, ACCOUNT 4116:

Gain or Loss on Cases Closed During the Fiscal Year (continued)

NARRATIVE: This performance indicator is based on cases closed and gains realized during the Fiscal Year (FY). Due to the decapitalization of the fund, a FY 1996 gain of \$26,921,782.83 was used to write-off unsalable equipment. An additional FY 1996 gain of \$27,620,001.02 will be returned to the Treasury after the remaining capitalization of the fund has been returned. A FY 1995 gain of \$15,545,063.03 was used to write-off unsalable equipment. In FY 1994, the gain of \$22,256,908.80 was also used to write-off unsalable equipment. There were no funds returned to Treasury in FY 1993, FY 1994 or FY 1995. At the end of FY 1992, a total of \$1,863,949.08 was returned to Treasury. This included the FY 1992 gain (\$1,631.3 thousands) and the net gain from prior fiscal years (\$232.6 thousands). The amounts for FY 1996 through FY 1991 are provided for comparison.

SOURCE: DSAA Special Defense Acquisition Fund Management Information System.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services

		THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY, END OF YEAR POSITION			<u>TOTAL</u>
11X4121	Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.		42,839
112968	Principal collections on Direct Loans and the direct portion of rescheduled loans.		660,588
111468	Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.		244,575
11X4121	Principal on Financing Bank loans transferred to 20X4521.097.		245,833
11X4121	Interest on Financing Bank loans transferred to 20X4521.		<u>298,143</u>
TOTAL COLLECTIONS			1,491,978

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
11X4121 Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	149,870
112968 Principal collections on Direct Loans and the direct portion of rescheduled loans.	673,622
111468 Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	262,683
11X4121 Principal on Financing Bank loans transferred to 20X4521.097.	292,387
11X4121 Interest on Financing Bank loans transferred to 20X4521.	<u>320,763</u>
TOTAL COLLECTIONS	1,699,325

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

FY 1994 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
11X4121 Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	34,423
112968 Principal collections on Direct Loans and the direct portion of rescheduled loans.	544,704
111468 Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	273,480
11X4121 Principal on Financing Bank loans transferred to 20X4521.097.	297,949
11X4121 Interest on Financing Bank loans transferred to 20X4521.	<u>346,131</u>
TOTAL COLLECTIONS	1,496,687

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

FY 1993 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
11X4121 Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	30,213
112968 Principal collections on Direct Loans and the direct portion of rescheduled loans.	461,654
111468 Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	290,988
11X4121 Principal on Financing Bank loans transferred to 20X4521.097.	260,910
11X4121 Interest on Financing Bank loans transferred to 20X4521.	<u>368,684</u>
TOTAL COLLECTIONS	1,412,449

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

FY 1992 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
11X4121 Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	100,818
112968 Principal collections on Direct Loans and the direct portion of rescheduled loans	381,091
111468 Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	277,884
11X4121 Principal on Financing Bank loans transferred to 20X4521.097.	255,697
11X4121 Interest on Financing Bank loans transferred to 20X4521.	<u>391,512</u>
TOTAL COLLECTIONS	1,407,002

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

FY 1991 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
11X4121 Principal and interest collections on defaulted Financing Bank and Commercial Guaranteed Loans and principal collections on the Guaranteed portion of rescheduled loans.	173,670
112968 Principal collections on Direct Loans and the direct portion of rescheduled loans.	237,156
111468 Interest and Late Charges on direct and rescheduled loans and late charges on defaulted Financing Bank and Commercial Guaranteed Loans.	273,142
11X4121 Principal on Financing Bank loans transferred to 20X4521.097.	0
11X4121 Interest on Financing Bank loans transferred to 20X4521	0
TOTAL COLLECTIONS	683,968

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**Foreign Military Loan Liquidating Account (FMLLA) Financial
(Account 4121):**

Financial Performance: Reimbursement of DoD for Articles and Services (Continued)

NARRATIVE:

This performance indicator compares the collections made to various accounts for several types of loans. The collections are made for: (a) repayments of guaranty disbursements made by DSAA for defaults or rescheduling and collected back into 11X4121 for new default disbursements; (b) repayments for direct loans and deposited into Treasury's miscellaneous receipt accounts 2968 and 1468; (c) repayments for Federal Finance Bank (FFB) loans and returned to FFB for borrowings from FFB. Collections of miscellaneous receipts (2968 and 1468) have increased over the past three years due to increased principal collections for direct loans. Collections into 11X4121 have decreased the past three years due to rescheduling of certain countries which were primarily in arrears.

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654).

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Assets to Liabilities Ratio

MILLIONS (\$ X 000,000)	
FY 1996 END OF YEAR POSITION	<u>TOTAL</u>
Assets	7,676
Liabilities	<u>7,065</u>
Equity	611
Assets to Liabilities Ratio	1:08:1
FY 1995 END OF YEAR POSITION	<u>TOTAL</u>
Assets	8,501
Liabilities	<u>7,882</u>
Equity	619
Assets to Liabilities Ratio	1.07:1
FY 1994 END OF YEAR POSITION	<u>TOTAL</u>
Assets	9,560
Liabilities	<u>7,996</u>
Equity	1,566
Assets to Liabilities Ratio	1.2:1
FY 1993 END OF YEAR POSITION	<u>TOTAL</u>
Assets	10,287
Liabilities	<u>4,148</u>
Equity	6,139
Assets to Liabilities Ratio	2.5:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Assets to Liabilities Ratio (Continued)

FY 1992 END OF YEAR POSITION	TOTAL
Assets	10,920
Liabilities	<u>4,413</u>
Equity	6,507
Assets to Liabilities Ratio	2.5:1
FY 1991 END OF YEAR POSITION	TOTAL
Assets	734
Liabilities	0
Equity	734
Assets to Liabilities Ratio	N/A

NARRATIVE:

This performance indicator represents the assets to liabilities ratio. Included in the asset balance are receivables for Federal Financing Bank (FFB) loans which equal the total liabilities which are borrowings from FFB.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Operating Costs

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY, END OF YEAR POSITION

	<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings	(293,490)
Total Operating Expenses	(293,490)

FY 1995 ACTIVITY, END OF YEAR POSITION

	<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings	(316,554)
Total Operating Expenses	(316,554)

FY 1994 ACTIVITY, END OF YEAR POSITION

	<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings	(341,534)
Total Operating Expenses	(341,534)

FY 1993 ACTIVITY, END OF YEAR POSITION

	<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings	364,534)
Total Operating Expenses	364,534)

FY 1992 ACTIVITY, END OF YEAR POSITION

	<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings	(387,090)
Total Operating Expenses	(387,090)

FY 1991 ACTIVITY, END OF YEAR POSITION

	<u>TOTAL</u>
Interest Expense on Federal Finance Bank Borrowings	0
Bad Debt Expense	(7,677,116)
Total Operating Expenses	(7,677,116)

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**Foreign Military Loan Liquidating Account (FMLLA) - Financial
(Account 4121):**

Operating Costs (Continued)

NARRATIVE:

This performance indicator represents the costs associated with the liquidating account. The only cost was interest expense paid to the Federal Financing Bank (FFB) for borrowings on FFB loans administered by DSAA. The drop in interest expense from FY 1992 through FY 1996 is due to the decrease in loan principal as FFB loans are paid off by the customers. There are no new FFB loan receivables to increase the principal balance thus increasing the interest expenses

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

Operating Results

	THOUSANDS (\$ X 000)	
FY 1996 ACTIVITY		TOTAL
Revenues less Funds Returned to Treasury		(282,387)
Less: Expenses		<u>(293,490)</u>
Operating Results		(11,103)
FY 1995 ACTIVITY		TOTAL
Revenues less Funds Returned to Treasury		(105,367)
Less: Expenses		<u>(364,832)</u>
Operating Results		(470,199)
FY 1994 ACTIVITY		TOTAL
Revenues less Funds Returned to Treasury		(125,713)
Less: Expenses		<u>(341,535)</u>
Operating Results		(467,248)
FY 1993 ACTIVITY		TOTAL
Revenues less Funds Returned to Treasury		47,538
Less: Expenses		<u>(364,534)</u>
Operating Results		(412,072)
FY 1992 ACTIVITY		TOTAL
Revenues less Funds Returned to Treasury		80,644
Less: Expenses		<u>(387,090)</u>
Operating Results		(306,446)
FY 1991 ACTIVITY		TOTAL
Revenues less Funds Returned to Treasury		115,923
Less: Expenses		<u>(7,677,116)</u>
Operating Results		(7,561,193)

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**Foreign Military Loan Liquidating Account (FMLLA) - Financial
(Account 4121):**

Operating Results (Continued)

NARRATIVE:

This performance indicator represents the difference between revenue and expenses in the account. The revenue is offset by the amount of collections that was returned to the Treasury which includes principal and interest. The large difference between FY 1992 and FY 1993 operating results is due to the large increase in funds returned to the Treasury in FY 1993 over FY 1992 (principal \$80 million increase and interest \$13 million). In FY 1991 Congress allowed one country to write-off its loan thus creating a bad debt expense of \$7,677,116,000. In FY 1991 Federal Financing Bank loans were not included in the account therefore there was no interest expense in FY 1991 as there was in FY 1992 through FY 1996.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Asset and Liability Account Balances And Ratio
MILLIONS (\$ X 000,000)

FY 1996, YEAR END POSITION	TOTAL
ASSETS	
Cash/Fund Balance with Treasury	0
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	655
Loans Receivable	<u>7,201</u>
TOTAL ASSETS	7,676
 LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,065
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,065
 Assets to Liabilities Ratio	 1.08:1
 FY 1995, YEAR END POSITION	
ASSETS	
Cash/Fund Balance with Treasury	11
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	579
Loans Receivable	<u>7,911</u>
TOTAL ASSETS	8,501
 LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,882
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,882
 Assets to Liabilities Ratio	 1.07:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Asset and Liability Account Balances And Ratio (Continued)

FY 1994, YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	433
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	500
Loans Receivable	<u>8,627</u>
TOTAL ASSETS	9,560
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	7,996
Accounts Payable, Federal	0
TOTAL LIABILITIES	7,996
Assets to Liabilities Ratio	1.2:1
FY 1993, YEAR END POSITION	
ASSETS	
Cash/Fund Balance with Treasury	901
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	426
Loans Receivable	<u>8,958</u>
TOTAL ASSETS	10,285
LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	4,148
Accounts Payable, Federal	0
TOTAL LIABILITIES	4,148
Assets to Liabilities Ratio	2.5:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Loan Liquidating Account (FMLLA) - Financial (Account 4121):

FINANCIAL CONDITION: Asset and Liability Account Balances And Ratio (Continued)

FY 1992, YEAR END POSITION	<u>TOTAL</u>
ASSETS	
Cash/Fund Balance with Treasury	1,331
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	369
Loans Receivable	<u>9,219</u>
TOTAL ASSETS	10,919
 LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	4,413
Accounts Payable, Federal	0
TOTAL LIABILITIES	4,413
 Assets to Liabilities Ratio	 2.5:1
 FY 1991, YEAR END POSITION	
<u>TOTAL</u>	
ASSETS	
Cash/Fund Balance with Treasury	34
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Non-Federal	175
Loans Receivable	<u>524</u>
TOTAL ASSETS	733
 LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	0
Accounts Payable, Federal	0
TOTAL LIABILITIES	0
 Assets to Liabilities Ratio	 N/A

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**Foreign Military Loan Liquidating Account (FMLLA) - Financial
(Account 4121):**

FINANCIAL CONDITION: Asset and Liability Account Balances And Ratio (Continued)

NARRATIVE:

This performance indicator shows the make up of the assets and liabilities of the account. The fund balance with Treasury decreased from FY 1994 to FY 1996 due to disbursements made for direct loans. The loan receivables are lower due to the increase in principal collections in FY 1994 through FY 1996.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (EMFDLEA) (Account 4122):

FINANCIAL PERFORMANCE: Reimbursement for Articles and Services

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	140,096
FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	93,698
FY 1994 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	50,666
FY 1993 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	0
FY 1992 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	0
FY 1991 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Total Collections	0

NARRATIVE:

This account was established in FY 1992. There was no collection activity in FY 1992 or FY 1993. Collections were started in FY 1994.

SOURCE:

General ledgers, Undisbursed Appropriation Account Report (TFS 6653), and Undisbursed Appropriation Accounts - Trial Balance (TFS 6654).

Appendix D. Disclaimer of Opinion and Financial Statements Audited

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLEA)(Account 4122):

FINANCIAL CONDITION: Assets to Liabilities Ratio

	THOUSANDS (\$ X 000)
FY 1996, END OF YEAR POSITION	<u>TOTAL</u>
Assets	2,946,635
Liabilities	<u>2,946,571</u>
Equity	64
Asset to Liabilities Ratio	1:1
FY 1995, END OF YEAR POSITION	<u>TOTAL</u>
Assets	2,465,785
Liabilities	<u>2,465,739</u>
Equity	46
Asset to Liabilities Ratio	1:1
FY 1994, END OF YEAR POSITION	<u>TOTAL</u>
Assets	1,946,779
Liabilities	<u>1,946,733</u>
Equity	46
Asset to Liabilities Ratio	1:1
FY 1993, END OF YEAR POSITION	<u>TOTAL</u>
Assets	1,200,046
Liabilities	<u>1,200,000</u>
Equity	46
Asset to Liabilities Ratio	1:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FINANCIAL CONDITION: Assets to Liabilities Ratio (Continued)

FY 1992, END OF YEAR POSITION	<u>TOTAL</u>
Assets	345,046
Liabilities	<u>345,000</u>
Equity	46

Asset to Liabilities Ratio 1:1

FY 1991, END OF YEAR POSITION	<u>TOTAL</u>
Assets	N/A
Liabilities	N/A
Equity	N/A

Asset to Liabilities Ratio N/A

NARRATIVE:

This performance indicator represents the difference between assets and liabilities. The ratio remains constant from FY 1992 through FY 1996. The dollars increased by the new loan agreements signed in FY 1995 and FY 1996. Equity consists of unobligated appropriated funds.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLEA)(Account 4122):

Operating Costs:

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	59,382
Administrative Expenses	0
Total Operating Expenses	59,382
FY 1995 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	42,774
Administrative Expenses	0
Total Operating Expenses	42,774
FY 1994 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	38,118
Administrative Expenses	0
Total Operating Expenses	38,118
FY 1993 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	136,746
Administrative Expenses	200
Total Operating Expenses	136,946
FY 1992 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	50,102
Administrative Expenses	0
Total Operating Expenses	50,102
FY 1991 ACTIVITY, END OF YEAR POSITION	TOTAL
Subsidy Expense	N/A
Administrative Expenses	N/A
Total Operating Expenses	N/A

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account

(FMFDLEA)(Account 4122):

Operating Costs: (Continued)

NARRATIVE:

This performance indicator measures the operating expenses for the account. Funds for administrative expenses were apportioned only in FY 1993.

SOURCE:

General Ledgers.

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Accounting (EMFDLEA)(Account 4122):

Operating Results

	THOUSANDS (\$ X 000)
FY 1996 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Appropriations Expensed Plus Revenues	136,310
Less: Operating Expenses	<u>(136,310)</u>
Operating Results	0
FY 1995 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Appropriations Expensed Plus Revenues	98,243
Less: Operating Expenses	<u>(98,243)</u>
Operating Results	0
FY 1994 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Appropriations Expensed Plus Revenues	65,566
Less: Operating Expenses	<u>(65,566)</u>
Operating Results	0
FY 1993 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Appropriations Expensed Plus Revenues	136,946
Less: Operating Expenses	<u>(136,946)</u>
Operating Results	0
FY 1992 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Appropriations Expensed Plus Revenues	50,102
Less: Operating Expenses	<u>(50,102)</u>
Operating Results	0
FY 1991 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
Appropriations Expensed Plus Revenues	N/A
Less: Operating Expenses	N/A
Operating Results	N/A

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**Foreign Military Financing Direct Loan Financing Accounting
(EMFDLEA)(Account 4122):**

Operating Results: (Continued)

NARRATIVE:

This performance indicator measures the operating results of the account. Net results from operations must equal zero for credit reform loans. The dollars increased from FY 1992 to FY 1996 due to increase in loan agreements signed. The account was established in FY 1992, therefore there are no balances for FY 1991.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLFA)(Account 4122):

FINANCIAL CONDITION: Asset And Liability Account Balances And Ratio

THOUSANDS (\$ X 000)		
FY 1996 ACTIVITY, END OF YEAR POSITION		TOTAL
ASSETS		
Fund Balance with Treasury		343,744
Inventory		0
Advances and Prepayments		0
Accounts Receivable, Federal Intra-government		1,628,851
Loans Receivable		12,255
Subsidy		<u>961,785</u>
Total Assets		2,946,635
LIABILITIES		
Accounts Payable, Non-Federal		0
Debt		1,133,783
Other Liabilities		0
Accounts Payable, Federal		<u>1,182,788</u>
Total Liabilities		2,946,571
Assets to Liabilities Ratio		1:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (EMFDLEA)(Account 4122):

FINANCIAL CONDITION: Asset And Liability Account Balances And Ratio (continued)

	THOUSANDS (\$ X 000)	
FY 1995 ACTIVITY, END OF YEAR POSITION		<u>TOTAL</u>
ASSETS		
Fund Balance with Treasury		500,186
Inventory		0
Advances and Prepayments		0
Accounts Receivable, Federal Intra-government		1,487,195
Loans Receivable		9,355
Subsidy		<u>469,049</u>
Total Assets		2,465,785
LIABILITIES		
Accounts Payable, Non-Federal		0
Debt		788,328
Other Liabilities		0
Accounts Payable, Federal		<u>1,677,411</u>
Total Liabilities		2,465,739
Assets to Liabilities Ratio		1:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLEA)(Account 4122):

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio (Continued)

FY 1994 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
ASSETS	
Fund Balance with Treasury	357,397
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal Intra-government	1,339,104
Loans Receivable	4,151
Subsidy	<u>246,127</u>
Total Assets	1,946,779
LIABILITIES	
Accounts Payable, Non-Federal	0
Debt	413,167
Other Liabilities	0
Accounts Payable, Federal	<u>1,533,566</u>
Total Liabilities	1,946,733
Assets to Liabilities Ratio	1:1

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMEDLFA)(Account 4122):

FINANCIAL CONDITION: Asset and Liability Account Balances & Ratio (Continued)

FY 1993 ACTIVITY, END OF YEAR POSITION TOTAL

ASSETS	
Fund Balance with Treasury	186,894
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal Intra-government	1,013,152
Loans Receivable	0
Total Assets	1,200,046

LIABILITIES	
Accounts Payable, Non-Federal	0
Other Liabilities	0
Accounts Payable, Federal	<u>1,200,000</u>
Total Liabilities	1,200,000
 Assets to Liabilities Ratio	 1:1

FY 1992 ACTIVITY, END OF YEAR POSITION TOTAL

ASSETS	
Fund Balance with Treasury	50,148
Inventory	0
Advances and Prepayments	0
Accounts Receivable, Federal Intra-government	294,898
Loans Receivable	0
Total Assets	345,046

LIABILITIES-	
Accounts Payable, Non-Federal	0
Other Liabilities	0
Accounts Payable, Federal	<u>345,000</u>
Total Liabilities	345,000
 Assets to Liabilities Ratio	 1:1

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

Foreign Military Financing Direct Loan Financing Account (FMFDLEA)(Account 4122):

FINANCIAL CONDITION: Asset and Liability Account Balances and Ratio (Continued)

FY 1991 ACTIVITY, END OF YEAR POSITION	<u>TOTAL</u>
ASSETS	
Fund Balance with Treasury	N/A
Inventory	N/A
Advances and Prepayments	N/A
Accounts Receivable, Federal Intra-government	N/A
Loans Receivable	N/A
Total Assets	N/A
LIABILITIES	
Accounts Payable, Non-Federal	N/A
Other Liabilities	N/A
Accounts Payable, Federal	N/A
Total Liabilities	N/A
Assets to Liabilities Ratio	N/A

NARRATIVE:

This performance indicator compares the makeup of the assets and liabilities in the account. The dollar figures increased from FY 1995 to FY 1996 due to the new loan agreements signed in FY 1996.

SOURCE:

General Ledgers.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND ACCOUNT 8242:

New Sales Cases Accepted and Amendments Processed

FY1996 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1996 SALES CASES	744	513	579	192	2,028
CASE AMENDMENTS-ALL YEARS	241	128	177	7	553
TOTAL	985	641	756	199	2,581

FY1995 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1995 SALES CASES	745	625	600	250	2,220
CASE AMENDMENTS-ALL YEARS	246	159	151	20	576
TOTAL	991	784	751	270	2,796

FY1994 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1994 SALES CASES	732	632	556	228	2,148
CASE AMENDMENTS-ALL YEARS	194	109	133	7	443
TOTAL	926	741	689	235	2,591

FY 1993 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1993 SALES CASES	793	630	576	277	2,276
CASE AMENDMENTS-ALL YEARS	175	126	97	2	400
TOTAL	968	756	673	279	2,676

FY 1992 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1992 SALES CASES	906	658	605	271	2,440
CASE AMENDMENTS-ALL YEARS	174	135	97	8	414
TOTAL	1,080	793	702	279	2,854

FY 1991 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
NEW FY 1991 SALES CASES	1,156	695	667	310	2,828
CASE AMENDMENTS-ALL YEARS	223	121	112	9	465
TOTAL	1,379	816	779	319	3,293

NARRATIVE:

This performance indicator shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. While amendments are identified to the original case, they are not identified to the fiscal year of the original case/sale. Several amendments during the multiple-year life of any case is considered reasonable.

SOURCE: DSAA 1200 System

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ordered Value of New Sales Cases Accepted and Amendments Processed

THOUSANDS (\$ X 000)

FY 1996	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend.	3,893,414	2,168,369	4,335,101	72,515	10,469,397
FY 1995	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend.	2,635,293	3,355,558	2,988,144	75,222	9,054,218
FY 1994	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend.	2,013,972	3,545,795	6,946,138	359,451	12,865,356
FY 1993	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend.	7,587,235	4,446,413	21,135,646	46,699	33,215,993
FY 1992	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend.	3,303,244	4,988,398	6,664,151	215,954	15,171,747
FY 1991	ARMY	NAVY	USAF	OTHER	TOTAL
New Cases and Amend.	11,392,373	3,996,086	8,131,988	267,138	23,787,585

NARRATIVE:

This performance indicator describes the dollar value for new sales cases and amendments to existing sales cases. This dollar value, taken with the level of activity in the indicator, "New Sales Cases Accepted and Amendments Processed," provides an appreciation of the relative amounts of activity among the implementing agencies.

SOURCE: DSAA 1200 System.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ordered Value of New & Amended Sales Cases by Major Category

	THOUSANDS (\$ X 000)				
<u>FY 1996</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	209,467	518,330	2,411,449	0	3,139,245
Missiles	892,268	386,450	335,090	7,566	1,621,374
Ships	515	192,612	0	1,320	194,445
Veh & Wpns	433,952	68,879	5,941	1,333	510,105
Ammunition	124,475	41,357	91,960	419	258,212
Training	137,620	109,585	181,212	1,129	429,546
Misc/Other	<u>2,095,118</u>	<u>851,156</u>	<u>1,309,449</u>	<u>60,748</u>	<u>4,316,470</u>
TOTAL	3,893,414	2,168,369	4,335,101	72,515	10,469,397

<u>FY 1995</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	958,217	704,069	1,036,860	381	2,699,526
Missiles	213,719	506,127	261,747	0	981,594
Ships	1,223	165,292	0	651	167,166
Veh & Wpns	112,767	186,228	145,916	127	445,039
Ammunition	57,460	123,480	55,120	976	237,036
Training	105,128	116,097	198,456	5,725	425,405
Misc/Other	<u>1,186,779</u>	<u>1,554,265</u>	<u>1,290,045</u>	<u>67,362</u>	<u>4,098,452</u>
TOTAL	2,635,293	3,355,558	2,988,144	75,222	9,054,218

<u>FY 1994</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	374,306	1,081,437	4,074,339	2,376	5,532,458
Missiles	326,507	670,295	367,869	721	1,365,392
Ships	538	187,630	0	2,616	190,784
Veh & Wpns	310,128	81,344	196,315	6,131	593,918
Ammunition	154,499	149,370	52,893	4,545	361,307
Training	57,345	273,770	192,795	542	524,452
Misc/Other	<u>790,559</u>	<u>1,101,949</u>	<u>2,061,897</u>	<u>342,520</u>	<u>4,296,925</u>
TOTAL	2,013,882	3,545,795	6,946,138	359,451	12,865,236

Appendix D. Disclaimer of Opinion and Financial Statements Audited

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ordered Value of New & Amended Sales Cases by Major Category (Continued)

<u>FY 1993</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	328,092	1,817,228	14,818,453	564	16,964,337
Missiles	2,706,077	523,590	578,892	4,979	3,813,538
Ships	2,552	230,271	0	1,881	234,704
Veh & Wpns	1,600,214	265,207	520,085	435	2,385,941
Ammunition	168,050	101,190	82,171	800	352,211
Training	254,532	209,366	1,077,233	14	1,541,145
Misc/Other	<u>2,527,718</u>	<u>1,299,561</u>	<u>4,058,812</u>	<u>38,026</u>	<u>7,924,117</u>
TOTAL	7,587,235	4,446,413	21,135,646	46,699	33,215,993

<u>FY 1992</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	732,837	2,914,386	4,334,059	318	7,981,600
Missiles	509,257	339,723	292,064	120,732	1,261,776
Ships	0	178,628	0	104	178,732
Veh & Wpns	391,774	94,383	179,629	8,432	674,218
Ammunition	60,134	104,309	70,508	13,995	248,946
Training	151,929	141,588	410,188	112	703,817
Misc/Other	<u>1,457,313</u>	<u>1,215,381</u>	<u>1,377,703</u>	<u>72,261</u>	<u>4,122,658</u>
TOTAL	3,303,244	4,988,398	6,664,151	215,954	15,171,747

<u>FY 1991</u>	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Aircraft	510,015	555,799	3,530,599	199	4,596,612
Missiles	1,070,180	490,928	85,111	21,214	1,667,433
Ships	42,650	239,898	0	0	282,548
Veh & Wpns	4,408,670	341,034	6,487	149	4,756,340
Ammunition	544,847	61,058	152,953	17,864	776,722
Training	178,331	458,891	283,506	181	920,909
Misc/Other	<u>4,637,680</u>	<u>1,848,478</u>	<u>4,073,332</u>	<u>227,531</u>	<u>10,787,021</u>
TOTAL	11,392,373	3,996,086	8,131,988	267,138	23,787,585

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT
8242:**

Ordered Value of New & Amended Sales Cases by Major Category (Continued)

NARRATIVE:

This indicator classifies the various kinds of execution activities and shows the distribution of major weapons sales cases among the implementing agencies.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND ACCOUNT 8242:

Sales Cases Closed

FY 1996 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	991	648	768	174	2,581

FY 1995 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,299	809	736	323	3,167

FY 1994 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,301	763	774	346	3,184

FY 1993 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,344	731	723	328	3,126

FY 1992 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,140	576	660	360	2,736

FY 1991 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,099	507	679	358	2,643

NARRATIVE:

This indicator demonstrates the number of Sales Cases "Closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract, occurs when all the terms have been met. Sales Cases must be legally, logistically, and financially "complete" prior to closure.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT

8242:

Ordered Value of Sales Cases Closed

THOUSANDS (\$ X 000)

	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1996 ACTIVITY:					
Closed Cases -					
All Years	3,083,999	2,076,129	3,872,552	129,377	9,162,057
FY 1995 ACTIVITY:					
Closed Cases -					
All Years	3,844,904	2,367,114	3,762,098	100,263	10,074,379
FY 1994 ACTIVITY:					
Closed Cases -					
All Years	3,057,325	2,090,171	1,921,989	156,189	7,225,674
FY 1993 ACTIVITY:					
Closed Cases -					
All Years	1,458,137	516,151	1,129,447	109,591	3,213,326
FY 1992 ACTIVITY:					
Closed Cases -					
All Years	835,782	400,249	1,269,442	156,798	2,662,271
FY 1991 ACTIVITY:					
Closed Cases -					
All Years	1,823,310	285,821	1,636,792	85,766	3,831,689

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT
8242:**

Ordered Value of Sales Cases Closed (continued)

NARRATIVE:

This indicator shows the dollar value of all sales cases closed during each fiscal year. These dollar values, taken with the level of activity in the previous indicator "Sales Cases Closed," demonstrates one of several complexities in comparing numbers of cases with their dollar values and by implementing agency.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Number of Sales Cases Closed

FY 1996 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	347	148	186	132	813
AGE: 6-10 Years	426	308	355	38	1,127
AGE: 11-15 Years	156	152	179	3	490
AGE: 16-20 Years	56	39	41	1	137
AGE: 20+ Years	6	1	7	0	14
TOTAL	991	648	768	174	2,581

FY 1995 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	463	172	222	239	1,096
AGE: 6-10 Years	584	377	350	67	1,378
AGE: 11-15 Years	196	198	131	16	541
AGE: 16-20 Years	50	51	29	1	131
AGE: 20+ Years	6	11	4	0	21
TOTAL	1,299	809	736	323	3,167

FY 1994 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	518	210	247	253	1,228
AGE: 6-10 Years	619	352	369	79	1,419
AGE: 11-15 Years	130	154	135	13	432
AGE: 16-20 Years	29	39	20	1	89
AGE: 20+ Years	5	8	3	0	16
TOTAL	1,301	763	774	346	3,184

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Number of Sales Cases Closed (Continued)

FY 1993 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	620	212	281	204	1,317
AGE: 6-10 Years	592	401	326	109	1,428
AGE: 11-15 Years	107	104	102	13	326
AGE: 16-20 Years	23	14	11	2	50
AGE: 20+ Years	2	0	3	0	5
TOTAL	1,344	731	723	328	3,126

FY 1992 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	575	208	304	206	1,293
AGE: 6-10 Years	494	291	246	126	1,157
AGE: 11-15 Years	62	69	90	27	248
AGE: 16-20 Years	9	8	19	1	37
AGE: 20+ Years	0	0	1	0	1
TOTAL	1,140	576	660	360	2,736

FY 1991 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	550	196	305	220	1,271
AGE: 6-10 Years	445	36	278	127	1,886
AGE: 11-15 Years	86	69	81	11	247
AGE: 16-20 Years	18	6	13	0	37
AGE: 20+ Years	0	0	2	0	2
TOTAL	1,099	307	679	358	2,443

NARRATIVE:

This performance indicator reveals the age or "life cycle" of the sales cases closed. The average 6+ year life of a case is directly attributable to its complexity. Major weapon system procurements, such as aircraft and construction cases, require more time to execute and complete financial close-out than does logistics and training cases.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Value of Sales Closed

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	126,740	29,621	65,948	29,571	251,880
AGE: 6-10 Years	671,915	318,486	465,443	95,311	1,551,155
AGE: 11-15 Years	936,400	466,750	1,000,808	3,476	2,407,434
AGE: 16-20 Years	1,069,890	960,295	1,891,813	1,018	3,923,016
AGE: 20+ Years	<u>279,054</u>	<u>300,977</u>	<u>448,540</u>	<u>0</u>	<u>1,028,571</u>
TOTAL	3,083,999	2,076,129	3,872,552	129,377	9,162,057

FY 1995 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	210,680	54,187	95,249	13,448	373,564
AGE: 6-10 Years	1,018,180	420,114	546,797	79,726	2,064,817
AGE: 11-15 Years	1,517,359	695,596	647,682	6,621	2,867,258
AGE: 16-20 Years	1,070,080	884,882	2,164,623	468	4,120,053
AGE: 20+ Years	<u>28,604</u>	<u>312,335</u>	<u>307,748</u>	<u>0</u>	<u>648,687</u>
TOTAL	3,844,903	2,367,114	3,762,099	100,263	10,074,379

FY 1994 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	195,796	36,932	76,530	16,662	325,920
AGE: 6-10 Years	1,573,045	178,180	431,065	119,191	2,301,481
AGE: 11-15 Years	764,210	598,934	714,291	20,317	2,097,752
AGE: 16-20 Years	388,742	586,179	449,542	19	1,424,482
AGE: 20+ Years	<u>135,532</u>	<u>689,945</u>	<u>250,561</u>	<u>0</u>	<u>1,076,039</u>
TOTAL	3,057,325	2,090,170	1,921,989	156,189	7,225,673

Appendix D. Disclaimer of Opinion and Financial Statements Audited

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Aged Value of Sales Cases Closed (continued)

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	195,797	33,289	56,567	9,477	295,130
AGE: 6-10 Years	564,434	176,896	316,279	88,586	1,146,195
AGE: 11-15 Years	440,231	198,906	259,611	11,328	910,076
AGE: 16-20 Years	249,487	107,059	143,431	199	500,176
AGE: 20+ Years	<u>8,188</u>	0	<u>353,559</u>	0	<u>361,747</u>
TOTAL	1,458,137	516,150	1,129,447	109,590	3,213,324

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	141,347	45,730	58,824	44,552	290,453
AGE: 6-10 Years	341,216	147,936	126,252	103,661	719,065
AGE: 11-15 Years	283,614	171,297	281,616	8,538	745,065
AGE: 16-20 Years	69,605	35,286	657,309	47	762,247
AGE: 20+ Years	0	0	<u>145,441</u>	0	<u>145,441</u>
TOTAL	835,782	400,249	1,269,442	156,798	2,662,271

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	109,632	40,439	69,499	50,299	269,869
AGE: 6-10 Years	511,166	70,542	252,545	31,527	865,780
AGE: 11-15 Years	474,583	76,394	477,785	3,941	1,032,703
AGE: 16-20 Years	727,929	98,445	551,261	0	1,377,635
AGE: 20+ Years	0	0	<u>285,702</u>	0	<u>285,702</u>
TOTAL	1,823,310	285,820	1,636,792	85,767	3,831,689

NARRATIVE:

This performance indicator shows the age and value of cases closed by implementing agency. The higher valued procurement and construction cases require more time to close, have a greater procurement and construction lead time requirement, and have a higher price due to the required complexities and the amount of labor involved.

SOURCE:

DSAA 1200 System.

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of Defense Articles and Services Delivered

MILLIONS (\$ X 000,000)

FY 1996 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Delivered Value	4,196.3	4,437.1	3,984.3	113.5	12,732.2
FY 1995 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Delivered Value	5,149.3	2,633.7	3,972.7	79.0	11,834.7
FY 1994 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Delivered Value	2,649.7	2,588.7	4,941.2	132.9	10,312.5
FY 1993 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Delivered Value	2,935.1	2,940.0	5,581.1	126.6	11,582.8
FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Delivered Value	3,154.2	1,855.6	4,845.1	161.4	10,016.3
FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Delivered Value	2,834.0	1,462.0	4,864.0	99.0	9,259.0

NARRATIVE:

This performance indicator shows the value of articles and services provided to customer countries during the year. The majority of these transactions are generated by the DoD Form 250. "Delivered Value" includes case activities for all years and all cases.

SOURCE:

DSAA 1200 System.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Deliveries to Ending Undelivered Balance

MILLIONS (\$ X 000,000)

FY 1996 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning					
Undelivered Bal.	26,216	30,057	45,636	1,130	103,040
New Orders	<u>3,893</u>	<u>2,168</u>	<u>4,335</u>	<u>37</u>	<u>10,469</u>
Total Undelivered Orders	30,110	32,226	49,971	1,089	113,509
Less:					
All Deliveries	<u>4,196</u>	<u>4,437</u>	<u>3,984</u>	<u>114</u>	<u>12,731</u>
End Undelivered Balance	25,914	27,788	45,987	1,089	100,778
Ratios by IA and					
Total:	16.19%	15.97%	8.66%	10.42%	12.63%
FY 1995 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning					
Undelivered Bal.	28,730	29,335	46,621	1,134	105,820
New Orders	<u>2,635</u>	<u>3,356</u>	<u>2,988</u>	<u>75</u>	<u>9,054</u>
Total Undelivered Orders	31,366	32,691	49,609	1,209	114,874
Less:					
All Deliveries	<u>5,149</u>	<u>2,634</u>	<u>3,973</u>	<u>79</u>	<u>11,835</u>
End Undelivered Balance	26,216	30,057	45,636	1,130	103,040
Ratios by IA and					
Total:	19.64%	8.76%	8.71%	6.99%	11.49%
FY 1994 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning					
Undelivered Bal.	29,366	28,378	44,616	908	103,268
New Orders	<u>2,014</u>	<u>3,546</u>	<u>6,946</u>	<u>359</u>	<u>12,865</u>
Total Undelivered Orders	31,380	31,924	51,562	1,267	116,133
Less:					
All Deliveries	<u>2,650</u>	<u>2,589</u>	<u>4,941</u>	<u>133</u>	<u>10,313</u>
End Undelivered Balance	28,730	29,335	46,621	1,134	105,820
Ratios by IA and					
Total:	9.22%	8.82%	10.60%	11.72%	9.75%

Supplemental

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Deliveries to Ending Undelivered Balance (Continued)

MILLIONS (\$ X 000,000)

FY 1993 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning					
Undelivered Bal.	24,714	26,871	29,061	987	81,633
New Orders	<u>7,587</u>	<u>4,446</u>	<u>21,135</u>	<u>46</u>	<u>33,214</u>
Total Undelivered Orders	32,301	31,317	50,196	1,034	114,847
Less:					
All Deliveries	<u>2,935</u>	<u>2,940</u>	<u>5,581</u>	<u>126</u>	<u>11,582</u>
End Undelivered Balance	29,366	28,377	44,615	907	103,265
Ratios by IA and					
Total:	9.99%	10.36%	12.51%	13.95%	11.22%
FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning					
Undelivered Bal.	24,565	23,739	27,242	933	76,479
New Orders	<u>3,303</u>	<u>4,988</u>	<u>6,664</u>	<u>216</u>	<u>15,171</u>
Total Undelivered Orders	27,868	28,727	33,906	1,149	91,650
Less:					
All Deliveries	<u>3,154</u>	<u>1,855</u>	<u>4,845</u>	<u>161</u>	<u>10,015</u>
End Undelivered Balance	24,714	26,872	29,061	988	81,635
Ratios by IA and					
Total:	12.76%	6.91%	16.67%	16.35%	12.27%
FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Beginning					
Undelivered Bal.	16,007	21,205	23,974	765	61,951
New Orders	<u>11,392</u>	<u>3,996</u>	<u>8,132</u>	<u>267</u>	<u>23,787</u>
Total Undelivered Orders	27,399	25,201	32,106	1,032	85,738
Less:					
All Deliveries	<u>2,834</u>	<u>1,462</u>	<u>4,864</u>	<u>99</u>	<u>9,259</u>
End Undelivered Balance	24,565	23,739	27,242	933	76,479
Ratios by IA and					
Total:	11.54%	6.16%	17.85%	10.61%	12.11%

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Deliveries to Ending Undelivered Balance (Continued)

NARRATIVE:

This performance indicator displays the "Ratio of Deliveries to Ending Balance". The FY 1996 deliveries (execution) were 12.63% of the ending balance of undelivered orders while FY 1995 was 11.49%. The FY 1994 deliveries (execution) were 9.75% of the ending balance of undelivered orders. This ratio also indicates that FY 1993 deliveries (execution) were 11.2% of the ending balance of undelivered orders as compared to FY 1992 percentage of 12.3%. Additional comparisons reveal FY 1993 deliveries were 14.1% of the beginning balance, 34.8% of the new orders placed, and 10.1% of the total undelivered orders for the year. The FY 1992 deliveries were 13.1% of the beginning balance, 66.1% of the new orders placed, and 10.9% of the total undelivered orders for the year. The obvious increase in FY 1992 undelivered orders was directly attributable to the increased FY 1992 and FY 1991 sales related to the Desert Shield/Desert Storm Military Operation.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of New Obligations

	MILLIONS (\$ X 000,000)				
	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1996 ACTIVITY Value	3,824.8	5,813.7	5,201.7	459.0	15,299.2
FY 1995 ACTIVITY Value	3,717.0	5,649.9	5,055.2	446.2	14,868.3
FY 1994 ACTIVITY Value	3,242.4	4,928.5	4,409.7	389.0	12,969.6
FY 1993 ACTIVITY: Value	3,338.4	5,074.3	4,540.2	400.6	13,353.5
FY 1992 ACTIVITY: Value	3,607.7	5,378.3	4,914.9	426.8	14,327.7
FY 1991 ACTIVITY: Value	5,815.6	2,842.1	5,284.0	482.8	14,424.5

NARRATIVE:

This performance indicator demonstrates the value of procurement contracts awarded and/or orders placed during each of the fiscal years. These values represent new orders of goods and services which the production and delivery may require considerable logistical and financial planning and several years to fully execute.

SOURCE:

FMS Trust Fund General Ledger.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of New Obligations Liquidated - All Years

	MILLIONS (\$ X 000,000)				
	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1996 ACTIVITY: Value	5,299.4	3,294.2	5,156.2	572.9	14,322.7
FY 1995 ACTIVITY: Value	4,964.2	3,085.9	4,830.1	536.8	13,417.0
FY 1994 ACTIVITY: Value	4,902.9	3,090.9	4,849.3	377.7	13,220.8
FY 1993 ACTIVITY: Value	4,553.3	3,623.8	4,657.2	327.5	13,161.8
FY 1992 ACTIVITY: Value	4,149.7	3,431.5	4,727.5	131.1	12,439.8
FY 1991 ACTIVITY: Value	3,081.3	2,754.3	5,593.5	42.4	11,471.5

NARRATIVE:

Values represent all disbursements paid to contractors for work performed and reimbursements paid to the military departments for articles and services provided.

SOURCE:

FMS Trust Fund General Ledger.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Unliquidated Obligations to Open Case Values as of Fiscal Year End

MILLIONS (\$ X 000,000)

Sep 30, 1996	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	59,619.1	57,213.0	101,412.0	1,683.5	219,926.6
DFAS- Unliquidated Obligations				\$25,227.0	
Ratio of Unliquidated Obligations to Open Cases				11.47%	
Sep 30, 1995	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	58,910.4	58,263.1	105,091.0	1,751.9	224,016.4
DFAS- Unliquidated Obligations				\$24,250.3	
Ratio of Unliquidated Obligations to Open Cases				10.83%	
Sep 30, 1994	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	60,503.0	57,438.1	106,407.5	1,826.1	226,174.7
DFAS- Unliquidated Obligations				\$22,799.0	
Ratio of Unliquidated Obligations to Open Cases				10.0%	
Sep 30, 1993	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	61,775.8	56,573.8	101,818.2	1,641.4	\$221,809.2
DFAS - Unliquidated Obligations				\$23,050.1	
Ratio of Unliquidated Obligations to Open Cases				10.4%	

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Ratio of Unliquidated Obligations to Open Case Values as of Fiscal Year End

Sep 30, 1992	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	58,821.9	52,829.8	82,884.1	1,740.1	\$196,275.9
SAAC - Unliquidated Obligations				\$22,858.5	

Ratio of Unliquidated Obligations to Open Cases 11.6%

Sep 30, 1991	ARMY	NAVY	USAF	OTHER	TOTAL
Value of Open Cases	56,938.8	48,574.7	78,121.8	1,695.3	\$185,330.6
SAAC - Unliquidated Obligations				\$21,051.2	

Ratio of Unliquidated Obligations to Open Cases 11.4%

NARRATIVE:

This compares the value of unliquidated obligations to the value of the open cases at fiscal year-end. No adjustment has been made for previous execution or prior obligations liquidated. Note: Defense Finance and Accounting Service (DFAS), Denver Center, case values are included in "OTHER".

SOURCE:

DSAA 1200 System and SF133 (Report on Budget Execution).

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Trust Fund and Interest Bearing Account Balances as of Fiscal Year End

MILLIONS (\$ X 000,000)

BALANCES AS OF SEPTEMBER 30, 1996		<u>TOTAL</u>
Treasury Cash Balance for Account 8242		\$5,587.0
Cash and Monetary Assets		8,605.3
Accounts Receivable		4,482.3
Accounts Payable		<u>-1,077.0</u>
TOTAL		\$17,898.0
 BALANCES AS OF SEPTEMBER 30, 1995		 <u>TOTAL</u>
Treasury Cash Balance for Account 8242		\$5,462.0
Cash and Monetary Assets		7,794.1
Accounts Receivable		2,538.1
Accounts Payable		<u>-182.1</u>
TOTAL		\$15,612.1
 BALANCES AS OF SEPTEMBER 30, 1994		 <u>TOTAL</u>
Treasury Cash Balance for Account 8242		\$6,409.6
Cash and Monetary Assets		6,641.0
Accounts Receivable		4,117.8
Accounts Payable		<u>-142.5</u>
TOTAL		\$17,025.9
 BALANCES AS OF SEPTEMBER 30, 1993		 <u>TOTAL</u>
Treasury Cash Balance for Account 8242		6,594.6
Cash and Monetary Assets		6,612.6
Accounts Receivable		1,444.2
Accounts Payable		<u>\$-485.0</u>
TOTAL		\$14,166.4

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

**Trust Fund and Interest Bearing Account Balances as of Fiscal Year End
(Continued)**

BALANCES AS OF SEPTEMBER 30, 1992	<u>TOTAL</u>
Treasury Cash Balance for Account 8242	\$6,516.9
Cash and Monetary Assets	6,669.8
Accounts Receivable	8,603.3
Accounts Payable	-182.1
TOTAL	\$21,607.9
BALANCES AS OF SEPTEMBER 30, 1991	<u>TOTAL</u>
Treasury Cash Balance for Account 8242	\$6,776.7
Cash and Monetary Assets	5,187.0
Accounts Receivable	8,603.3
Accounts Payable	-181.7
TOTAL	\$20,385.3

NARRATIVE:

Foreign Military Sales (FMS) Trust Fund Accounting is provided by the Defense Finance and Accounting Service (DFAS), Denver Center to ensure sufficient customer funds are on hand to meet the daily cash requirements of the military departments.

During FY 1996, approximately \$14,323.0 million was disbursed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yields a "quick cash ratio" of 1.01:1 for the fund (cash to requirements). The liquidity ratio was 1.19:1 and was calculated as total cash available, plus receivables, minus payables, compared to FY 1996 cash disbursements requirements. The change in accounts payable is due to negative accounts receivables as payables based on DODIG Audit Findings on the 1995 Chief Financial Officer (CFO) Report (project no. 5LG-2029.01, dtd June 28, 1996).

SOURCE:

FMS Trust Fund General Ledger.

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT

8242:

Cumulative Value of Reconciled Accounts as of Fiscal Year End

September 30, 1996	<u>DFAS</u>
Unreconciled Accounts	-0-
September 30, 1995	<u>DFAS</u>
Unreconciled Accounts	-0-
September 30, 1994	<u>DFAS</u>
Unreconciled Accounts	-0-
September 30, 1993	<u>DFAS</u>
Unreconciled Accounts	-0-
September 30, 1992	<u>SAAC</u>
Unreconciled Accounts	-0-
September 30, 1991	<u>SAAC</u>
Unreconciled Accounts	-0-

NARRATIVE:

As of September 30, 1996 there were no unreconciled accounts for any country.

SOURCE:

FMS Trust Fund General Ledger.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Number of Open Cases as of Fiscal Year End

SEPTEMBER 30, 1996 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	5,029	4,909	4,188	1,083	15,209
SEPTEMBER 30, 1995 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	5,333	5,070	4,436	1,077	15,916
SEPTEMBER 30, 1994 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	5,757	5,210	4,536	1,142	16,645
SEPTEMBER 30, 1993 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	6,245	5,298	4,706	1,232	17,481
SEPTEMBER 30, 1992 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	6,733	5,360	4,810	1,287	18,190
SEPTEMBER 30, 1991 POSITION	ARMY	NAVY	USAF	OTHER	TOTAL
NUMBER OF CASES OPEN	6,890	5,208	4,846	1,364	18,308

NARRATIVE:

This performance indicator shows the number of active FMS cases at the end of each fiscal year

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Value of Country Accounts in Arrearage Status as of Fiscal Year End

(WHOLE DOLLARS)

COUNTRY AND VALUE, SEPTEMBER 30, 1996:	<u>ARREARAGE</u>
Nigeria	29,962
Organization of American States (OAS)	<u>596,097</u>
TOTAL	\$626,059

COUNTRY AND VALUE, SEPTEMBER 30, 1995:	<u>ARREARAGE</u>
Nigeria	28,343
Organization of American States (OAS)	<u>557,569</u>
TOTAL	\$585,912

COUNTRY AND VALUE, SEPTEMBER 30, 1994:	<u>ARREARAGE</u>
Nigeria	27,108
Organization of American States (OAS)	<u>465,787</u>
TOTAL	\$492,895

COUNTRY AND VALUE, SEPTEMBER 30, 1993:	<u>ARREARAGE</u>
Nicaragua	26,491
Organization of American States (OAS)	<u>516,419</u>
TOTAL	\$542,910

COUNTRY AND VALUE, SEPTEMBER 30, 1992:	<u>ARREARAGE</u>
Nicaragua	25,844
Uganda	17,421
Uruguay	369,694
Organization of American States (OAS)	<u>537,308</u>
TOTAL	\$950,267

COUNTRY AND VALUE, SEPTEMBER 30, 1991:	<u>ARREARAGE</u>
Malta	35,364
Nicaragua	11,131
Nigeria	159,134
Organization of American States (OAS)	<u>314,026</u>
TOTAL	\$519,655

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT
8242:**

Value of Country Accounts in Arrearage Status as of Fiscal Year End (Continued)

NARRATIVE:

Two country accounts were placed in an arrearage status due to non-payment, as of current fiscal year end.

SOURCE:

Treasury TFS Form 4503 Report (Current Status of Accounts Receivable (Original Maturity of Less than 90 Days) from Foreign Obligors) as of June 30, 1996 and Treasury Reports on Accounts and Loans Receivables due from the Public as of September 30, 1996.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND ACCOUNT 8242:

Net Outlays to Plan End of Fiscal Year

MILLIONS (\$ X 000,000)

FY 1996 ACTIVITY:	<u>Budget</u>	<u>Actual</u>	<u>Ratio</u>
Disbursements	\$13,150.0	\$14,323.0	108.9%
Collections	<u>-13,020.0</u>	<u>-14,747.2</u>	<u>113.3%</u>
Net Outlays	\$130.0	\$-424.2	N/A
FY 1995 ACTIVITY:	<u>Budget</u>	<u>Actual</u>	<u>Ratio</u>
Disbursements	\$13,450.0	\$13,417.0	99.8%
Collections	<u>-13,350.0</u>	<u>-12,469.4</u>	<u>93.4%</u>
Net Outlays	\$100.0	\$947.6	N/A
FY 1994 ACTIVITY:	<u>Budget</u>	<u>Actual</u>	<u>Ratio</u>
Disbursements	\$13,440.0	\$13,220.8	98.4%
Collections	<u>-13,370.0</u>	<u>-13,035.8</u>	<u>97.6%</u>
Net Outlays	\$70.0	\$185.0	N/A
FY 1993 ACTIVITY:	Presidents	FY 1993	
	<u>Budget</u>	<u>Actual</u>	<u>Ratio</u>
Disbursements	\$12,850.0	\$13,161.8	102.4%
Collections	<u>-12,720.0</u>	<u>-13,239.4</u>	<u>104.1%</u>
Net Outlays	\$130.0	\$-77.6	N/A
FY 1992 ACTIVITY:	Presidents	FY 1992	
	<u>Budget</u>	<u>Actual</u>	<u>Ratio</u>
Disbursements	\$11,307.0	\$12,439.8	110.0%
Collections	<u>-11,419.0</u>	<u>-12,182.0</u>	<u>106.7%</u>
Net Outlays	\$-112.0	\$257.8	N/A
FY 1991 ACTIVITY:	Presidents	FY 1991	
	<u>Budget</u>	<u>Actual</u>	<u>Ratio</u>
Disbursements	\$10,055.0	\$11,471.6	114.1%
Collections	<u>-10,300.0</u>	<u>-11,697.4</u>	<u>113.6%</u>
Net Outlays	\$-245.0	\$-225.8	N/A

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT
8242:**

Net Outlays to Plan End of Fiscal Year (Continued)

NARRATIVE:

Disbursement outlay estimates are based on prior unliquidated balances as carried forward from previous years, plus an estimate for the new year's obligations, and are adjusted by a historical experience (spend out rate) factor. The FY 1996 and FY 1995 "actuals" for disbursements and receipts are within a normal range for estimating accuracy. FY 1993 disbursements were higher than estimated due to a higher spend out rate than estimated. FY 1993 collections were greater than anticipated due to a large increase in sales (\$33 Billion actual versus \$17 Billion estimated). FY 1992 and FY 1991 disbursements were also higher than estimated.

SOURCE:

President's Budget and SF133 (Report on Budget Execution)

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Work Years (WY) Used for Administration of Security Assistance Program During the Fiscal Year

FY 1996 ACTIVITY	ARMY	NAVY	USAF	DEAS-DE	OTHER	TOTAL
CONUS Mil WY	39	49	198	12	36	334
CONUS Civ WY	<u>1,378</u>	<u>786</u>	<u>1,649</u>	<u>691</u>	<u>134</u>	<u>4,638</u>
Total CONUS WY	1,417	835	1,847	703	170	4,972

	MILITARY	U.S. CIV	ENS	TOTAL
CONUS WY	334	4,638	0	4,972
Overseas WY	<u>226</u>	<u>53</u>	<u>135</u>	<u>414</u>
Total WY	560	4,691	135	5,386

FY 1995 ACTIVITY	ARMY	NAVY	USAF	DEAS-DE	OTHER	TOTAL
CONUS Mil WY	48	49	179	2	36	314
CONUS Civ WY	<u>1,531</u>	<u>906</u>	<u>1,791</u>	<u>728</u>	<u>135</u>	<u>5,091</u>
Total CONUS WY	1,579	955	1,970	730	171	5,405

	MILITARY	U.S. CIV	ENS	TOTAL
CONUS WY	314	5,091	0	5,405
Overseas WY	<u>262</u>	<u>61</u>	<u>168</u>	<u>491</u>
Total WY	576	5,152	168	5,896

FY 1994 ACTIVITY	ARMY	NAVY	USAF	DEAS-DE	OTHER	TOTAL
CONUS Mil WY	61	50	161	2	36	310
CONUS Civ WY	<u>1,552</u>	<u>958</u>	<u>1,366</u>	<u>819</u>	<u>41</u>	<u>4,736</u>
Total CONUS WY	1,613	1,008	1,527	821	77	5,046

	MILITARY	U.S. CIV	ESN	TOTAL
CONUS WY	310	4,836	0	5,146
Overseas WY	<u>261</u>	<u>64</u>	<u>172</u>	<u>497</u>
Total WY	571	4,900	172	5,643

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Work Years (WY) Used for Administration of Security Assistance Program During the Fiscal Year (Continued)

FY 1993 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	41	48	87	2	39	217
CONUS Civ WY	1,658	977	1,286	622	165	4,708
Total CONUS WY	1,699	1,025	1,373	624	204	4,925

	MILITARY	U.S. CIV	FSN	TOTAL
CONUS WY	217	4,708	0	4,925
Overseas WY	245	58	161	464
Total WY	462	4,766	161	5,389

FY 1992 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	40	51	92	2	40	225
CONUS Civ WY	1,703	1,066	1,415	297	169	4,650
Total CONUS WY	1,743	1,117	1,507	299	209	4,875

	MILITARY	U.S. CIV	FSN	TOTAL
CONUS WY	225	4,650	0	4,875
Overseas WY	226	52	145	423
Total WY	451	4,702	145	5,298

FY 1991 ACTIVITY	ARMY	NAVY	USAF	DFAS-DE	OTHER	TOTAL
CONUS Mil WY	31	59	101	2	38	231
CONUS Civ WY	1,680	1,127	1,781	354	171	5,113
Total CONUS WY	1,711	1,186	1,882	356	209	5,344

	MILITARY	U.S. CIV	FSN	TOTAL
CONUS WY	231	5,113	0	5,344
Overseas WY	260	58	160	478
Total WY	491	5,171	160	5,822

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT
8242:**

**Work Years (WY) Used for Administration of Security Assistance Program During the
Fiscal Year (Continued)**

NARRATIVE: Work years are an estimate obtained from budget data. No specific manpower accounting system exists for Security Assistance work years.

CONUS: The civilian and military work years are assigned to provide logistical, financial, training, and other types of administrative support to the Foreign Military Sales Program. Civilian pay is funded from FMS administrative funds. Military pay is financed from the Military Pay Appropriations.

OVERSEAS: There are FMS administrative work years at overseas Security Assistance Offices (SAO's) that are in support of FMS activities. U.S. Military and Civilians are stationed in Foreign Countries to provide administrative support for Security Assistance Program implementation. Foreign Service Nationals (FSNs) are also hired to provide administrative support.

SOURCE:
DSAA Blue Book.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT 8242:

Cost of Work Years Used for Administration of the Security Assistance Program

THOUSANDS (\$ X 000)

FY 1996 ACTIVITY	ARMY	NAVY	USAF	DFAS	OTHER	TOTAL
Actual Cost	\$91.7	\$61.2	\$98.7	\$41.3	\$62.1	\$355.0
Budget	\$91.7	\$60.9	\$98.3	\$41.3	\$62.8	\$355.0
FY 1995 ACTIVITY	ARMY	NAVY	USAF	DFAS	OTHER	TOTAL
Actual Cost	\$93.6	\$64.0	\$99.2	\$45.6	\$46.0	\$348.4
Budget	\$93.7	\$64.3	\$99.6	\$45.6	\$47.8	\$351.0
FY 1994 ACTIVITY	ARMY	NAVY	USAF	DFAS	OTHER	TOTAL
Actual Cost	\$91.8	\$62.9	\$86.6	\$44.5	\$17.6	\$303.4
Budget	\$92.7	\$63.7	\$87.3	\$45.0	\$18.9	\$307.6
FY 1993 ACTIVITY:	ARMY	NAVY	USAF	DFAS	DSAA & OTHER	TOTAL
Actual Cost	\$90.4	\$60.3	\$76.5	\$36.5	\$17.8	\$281.5
Budget	\$91.5	\$65.5	\$74.5	\$24.0	\$17.5	\$273.0
FY 1992 ACTIVITY	ARMY	NAVY	USAF	DFAS	DSAA & OTHER	TOTAL
Actual Cost	\$90.1	\$60.9	\$76.0	\$22.6	\$36.2	\$285.8
Budget	\$90.0	\$67.5	\$83.1	\$19.1	\$19.3	\$279.0
FY 1991 ACTIVITY	ARMY	NAVY	USAF	SAAC	DSAA & OTHER	TOTAL
Actual Cost	\$87.2	\$61.1	\$91.3	\$15.2	\$17.4	\$272.2
Budget	FY 1991 ACTIVITY IS NOT AVAILABLE					

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND, ACCOUNT
8242:**

**Cost of Work Years Used for Administration of the Security Assistance Program
(Continued)**

NARRATIVE:

Costs include direct payroll costs, benefits, moving costs, automatic data processing,
other services, and etc.

SOURCE:

DSAA Blue Book and Monthly DoD Status of Allotment Report.

Appendix D. Disclaimer of Opinion and Financial Statements Audited

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Number of Cases Open at Fiscal Year End:

SEP 30, 1996	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
POSITION:						
Beg. Balance(Open)	5,333	5,070	4,436	1,077	0	15,916
Add: New & Mod Cases	744	513	579	192	0	2,028
Subtotal	6,077	5,583	5,015	1,269	0	17,944
Less: Cases Closed	991	648	768	174	0	2,581
Subtotal	5,086	4,935	4,247	1,095	0	15,363
+/- Mods & Adj	-57	-26	-59	-12	0	-154
End. Balance (Open)	5,029	4,909	4,188	1,083	0	15,209

SEP 30, 1995	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
POSITION:						
Beg. Balance(Open)	5,757	5,210	4,536	1,142	0	16,645
Add: New & Mod Cases	745	625	600	250	0	2,220
Subtotal	6,502	5,835	5,136	1,392	0	18,865
Less: Cases Closed	1,299	809	736	323	0	3,167
Subtotal	5,203	5,026	4,400	1,069	0	15,698
+/- Mods & Adj	130	44	36	8	0	218
End. Balance (Open)	5,333	5,070	4,436	1,077	0	15,916

SEP 30, 1994	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
POSITION:						
Beg. Balance(Open)	6,245	5,298	4,706	1,232	0	17,481
Add: New & Mod Cases	732	632	556	228	0	2,148
Subtotal	6,977	5,930	5,262	1,460	0	19,629
Less: Cases Closed	1,301	763	774	346	0	3,184
Subtotal	5,676	5,167	4,488	1,114	0	16,445
+/- Mods & Adj	81	43	48	28	0	200
End. Balance (Open)	5,757	5,210	4,536	1,142	0	16,645

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

**Reconciliation of the Number of Cases Open at Fiscal Year End:
(Continued)**

SEP 30, 1993	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
POSITION:						
Beg. Balance(Open)	6,733	5,360	4,810	1,287	0	18,190
Add: New & Mod Cases	<u>793</u>	<u>630</u>	<u>576</u>	<u>277</u>	0	<u>2,276</u>
Subtotal	7,526	5,990	5,386	1,564	0	20,466
Less: Cases Closed	<u>1,344</u>	<u>731</u>	<u>723</u>	<u>328</u>	0	<u>3,126</u>
Subtotal	6,182	5,259	4,663	1,236	0	17,340
+/- Mods & Adj	<u>63</u>	<u>39</u>	<u>43</u>	<u>-4</u>	0	<u>141</u>
End. Balance (Open)	6,245	5,298	4,706	1,232	0	17,481

SEP 30, 1992	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
POSITION:						
Beg. Balance(Open)	6,890	5,208	4,846	1,364	0	18,308
Add: New & Mod Cases	<u>906</u>	<u>658</u>	<u>605</u>	<u>271</u>	0	<u>2,440</u>
Subtotal	7,796	5,866	5,451	1,635	0	20,748
Less: Cases Closed	<u>1,140</u>	<u>576</u>	<u>660</u>	<u>360</u>	0	<u>2,736</u>
Subtotal	6,656	5,290	4,791	1,275	0	18,012
+/- Mods & Adj	<u>77</u>	<u>-70</u>	<u>19</u>	<u>-12</u>	0	<u>178</u>
End. Balance (Open)	6,733	5,360	4,810	1,287	0	18,190

SEP 30, 1991	ARMY	NAVY	USAF	OTHER	MISC	TOTAL
POSITION:						
Beg. Balance(Open)	6,833	5,020	4,858	1,412	0	18,123
Add: New & Mod Cases	<u>1,156</u>	<u>695</u>	<u>667</u>	<u>310</u>	0	<u>2,828</u>
Subtotal	7,989	5,715	5,525	1,722	0	20,951
Less: Cases Closed	<u>1,099</u>	<u>507</u>	<u>679</u>	<u>358</u>	0	<u>2,643</u>
Subtotal	6,890	5,208	4,846	1,364	0	18,308
+/- Mods & Adj	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0	<u>0</u>
End. Balance (Open)	6,890	5,208	4,846	1,364	0	18,308

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**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT
8242):**

**Reconciliation of the Number of Cases Open at Fiscal Year End:
(Continued)**

NARRATIVE:

This performance indicator reconciles the number of active FMS sales cases at the end of each fiscal year.

SOURCE:

DSAA 1200 System.

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Value of Cases Open at Fiscal Year End:

DOLLARS IN THOUSANDS (\$ x 000)

SEPTEMBER 30, 1996					
POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	58,910,398	58,263,100	105,091,007	1,751,921	22,016,426
Add: New	<u>3,893,414</u>	<u>2,168,369</u>	<u>4,335,101</u>	<u>72,515</u>	<u>10,469,397</u>
Cases**					
Subtotal	62,083,999	60,431,469	109,426,108	1,824,437	234,485,824
Less: Cases	<u>3,083,999</u>	<u>2,076,129</u>	<u>3,872,552</u>	<u>129,377</u>	<u>9,162,057</u>
Closed					
Subtotal	59,719,813	58,355,340	105,553,556	1,695,060	225,323,767
+/- Mods &	<u>-100,753</u>	<u>-1,142,308</u>	<u>-4,141,542</u>	<u>-12,524</u>	<u>-5,397,125</u>
Adj					
End Balance	59,619,060	57,213,032	101,412,014	1,682,536	219,926,642
SEPTEMBER 30, 1995					
POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	60,503,037	57,438,130	106,407,482	1,826,104	226,174,753
Add: New	<u>2,635,293</u>	<u>3,355,558</u>	<u>2,988,144</u>	<u>75,222</u>	<u>9,054,218</u>
Cases**					
Subtotal	63,138,330	60,793,688	109,395,626	1,901,326	235,228,971
Less: Cases	<u>3,844,904</u>	<u>2,367,114</u>	<u>3,762,098</u>	<u>100,263</u>	<u>10,074,379</u>
Closed					
Subtotal	59,293,426	58,426,574	105,633,528	1,801,063	225,154,592
+/- Mods &	<u>-393,028</u>	<u>-163,474</u>	<u>-542,521</u>	<u>-49,142</u>	<u>-1,138,166</u>
Adj					
End Balance	58,910,398	58,263,100	105,091,007	1,751,921	224,016,426

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Value of Cases Open at Fiscal Year End: (Continued)

SEPTEMBER

30, 1994

POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	61,775,801	56,573,801	101,818,196	1,641,405	221,809,203
Add: New Cases**	<u>2,013,972</u>	<u>3,545,795</u>	<u>6,946,138</u>	<u>359,451</u>	<u>12,865,356</u>
Subtotal	63,789,773	60,119,596	108,764,334	2,000,856	234,674,559
Less: Cases Closed	<u>3,057,325</u>	<u>2,090,171</u>	<u>1,921,989</u>	<u>156,189</u>	<u>7,225,674</u>
Subtotal	60,732,448	58,029,425	106,842,345	1,844,667	227,448,885
+/- Mods & Adj	<u>-229,411</u>	<u>-591,295</u>	<u>-434,863</u>	<u>-18,563</u>	<u>-1,274,132</u>
End Balance	60,503,037	57,438,130	106,407,482	1,826,104	226,174,753

SEPTEMBER

30, 1993

POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
Beg Balance	58,821,935	52,829,811	82,884,064	1,740,046	196,275,856
Add: New Cases**	<u>7,587,235</u>	<u>4,446,413</u>	<u>21,135,646</u>	<u>46,699</u>	<u>33,215,993</u>
Subtotal	66,409,170	57,276,224	104,019,710	1,786,745	229,491,849
Less: Cases Closed	<u>1,458,137</u>	<u>516,151</u>	<u>1,129,447</u>	<u>109,591</u>	<u>3,213,326</u>
Subtotal	64,951,033	56,760,073	102,890,263	1,677,154	226,278,523
+/- Mods & Adj	<u>-3,175,232</u>	<u>-186,272</u>	<u>-1,072,067</u>	<u>-35,748</u>	<u>-4,469,320</u>
End Balance	61,775,801	56,573,801	101,818,196	1,641,406	221,809,203

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PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Reconciliation of the Value of Cases Open at Fiscal Year End: (Continued)

SEPTEMBER

30, 1992

POSITION:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Beg Balance	56,938,759	48,574,718	78,121,828	1,695,306	185,330,611
Add: New Cases**	<u>3,303,244</u>	<u>4,988,398</u>	<u>6,664,151</u>	<u>215,954</u>	<u>15,171,747</u>
Subtotal	60,242,003	53,563,116	84,785,979	1,911,260	200,502,358
Less: Cases Closed	<u>835,782</u>	<u>400,249</u>	<u>1,269,442</u>	<u>156,798</u>	<u>2,662,271</u>
Subtotal	59,406,221	53,162,867	83,516,537	1,754,462	197,840,087
+/- Mods & Adj	<u>-584,286</u>	<u>-333,056</u>	<u>-632,473</u>	<u>-14,416</u>	<u>-1,564,231</u>
End Balance	58,821,935	52,829,811	82,884,064	1,740,046	196,275,856

SEPTEMBER

30, 1991

POSITION:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
Beg Balance	47,258,696	44,864,453	71,626,632	1,513,934	165,263,715
Add: New Cases**	<u>11,392,373</u>	<u>3,996,086</u>	<u>8,131,988</u>	<u>267,138</u>	<u>23,787,585</u>
Subtotal	58,651,069	48,860,539	79,758,620	1,781,072	189,051,300
Less: Cases Closed	<u>1,832,310</u>	<u>285,821</u>	<u>1,636,792</u>	<u>85,766</u>	<u>3,840,689</u>
Subtotal	56,818,759	48,574,718	78,121,828	1,695,306	185,210,611
+/- Mods & Adj	0	0	0	0	0
End Balance	56,818,759	48,574,718	78,121,828	1,695,306	185,210,611

Supplemental

**PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT
INFORMATION**

A. ADDITIONAL PERFORMANCE INDICATORS

**FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT
8242):**

Reconciliation of the Value of Cases Open at Fiscal Year End: (Continued)

NARRATIVE:

This performance indicator reconciles the value of active FMS cases at the end of each fiscal year. **These values include all "new cases" for FY 1996, FY 1995, FY 1994, FY 1993, FY 1992, and FY 1991 and all case amendments and modifications for all fiscal years.

SOURCE:

DSAA 1200 System.

Supplemental _____

PART III - SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

A. ADDITIONAL PERFORMANCE INDICATORS

FOREIGN MILITARY SALES (FMS) TRUST FUND (ACCOUNT 8242):

Overseas Work Years Used for Administration of the Security Assistance Program by Fiscal Year:

FY 1996 ACTIVITY	<u>MILITARY</u>	<u>U.S. CIV</u>	<u>FSN</u>	<u>TOTAL</u>
Work Years Used	226	53	135	414
FY 1995 ACTIVITY	<u>MILITARY</u>	<u>U.S. CIV</u>	<u>FSN</u>	<u>TOTAL</u>
Work Years Used	262	61	168	491
FY 1994 ACTIVITY	<u>MILITARY</u>	<u>U.S. CIV</u>	<u>FSN</u>	<u>TOTAL</u>
Work Years Used	261	64	172	497
FY 1993 ACTIVITY	<u>MILITARY</u>	<u>U.S. CIV</u>	<u>FSN</u>	<u>TOTAL</u>
Work Years Used	245	58	161	464
FY 1992 ACTIVITY	<u>MILITARY</u>	<u>U.S. CIV</u>	<u>FSN</u>	<u>TOTAL</u>
Work Years Used	226	52	145	423
FY 1991 ACTIVITY	<u>MILITARY</u>	<u>U.S. CIV</u>	<u>FSN</u>	<u>TOTAL</u>
Work Years Used	260	58	160	478

NARRATIVE:

This represents military, U.S. Civilian, and Foreign Service Nationals (FSNs) work years used by fiscal year.

SOURCE:

DSAA Blue Book.

Audit Opinion

***DEFENSE SECURITY
ASSISTANCE AGENCY***

AUDIT OPINION

Audit Opinion _____

Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

February 21, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND
CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

SUBJECT: Disclaimer of Opinion on the Defense Security Assistance Agency Consolidated
Financial Statements for FY 1996 (Project No. 6LG-2006)

The Chief Financial Officers (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by statutory Inspectors General. That Act prescribes the responsibilities of management and the auditors with respect to the financial statements, internal controls, and compliance with laws and regulations. The Defense Security Assistance Agency (the Agency), as the funds manager, is responsible for establishing and maintaining an internal control structure and complying with laws and regulations applicable to those funds. The Defense Finance and Accounting Service, Denver Center (DFAS-Denver) is responsible for establishing and maintaining the accounting system for the funds managed by the Agency. Our responsibility was to express an opinion on the financial statements based on our audit and to determine whether internal controls were adequate and whether the Agency complied with applicable laws and regulations.

Disclaimer of Opinion. We were unable to render an opinion on the Agency's consolidated financial statements for FY 1996. Significant deficiencies identified in our audits of the Agency's FY 1992 and FY 1995 financial statements still exist. The deficiencies in the accounting systems and control procedures did not provide reasonable assurance that financial statements are reliable. Specifically, the Agency did not account for revenues and expenses of the Foreign Military Sales Trust Fund. Also, audit trails were not easily accessible to allow review of disbursements, Other Non-Federal (Government) Liabilities, and accounts payable. Although a Management Representation Letter was provided to us, the Agency did not attest to the accuracy or completeness of the financial data.

Our review provides a reasonable basis for conclusion on the internal control structure and compliance with laws and regulations as they relate to the financial statements of the Agency. Our review would not necessarily disclose all internal control and compliance reportable conditions that might also be considered material weaknesses. Reportable internal control and compliance conditions are summarized in this report and will be further addressed in our internal control and compliance report to be published.

Internal Controls. We reviewed the internal control structure of the Agency and obtained an understanding of the internal control policies and procedures. In addition, we reviewed the implementation of the Management Control Program. We performed applicable tests of the internal control structure to determine whether the controls were effective and working as designed.

Audit Opinion

The internal control structure was not effective in accounting for and managing resources, ensuring compliance with laws and regulations, and ensuring that the financial statements were free of material misstatements. Although we noted improvements in the financial reporting of accounts receivable and controls over electronic data processing, management actions were still needed to improve the accounting for revenues and expenses, the management of cash disbursements and unmatched disbursements, the support of general ledger by subsidiary accounts, and the recording and reporting of accounts payable.

The Agency's Annual Statement of Assurance did not report any material weakness related to the financial statements. The DFAS-Denver Annual Statement of Assurance identified a material weakness relating to the numerous systems utilized for managing Foreign Military Sales. According to the DFAS-DE annual statement, integrating and reconciling the various systems result in inefficiencies, create a higher potential for errors, and cause difficulties in obtaining information. The internal control weaknesses and noncompliance with laws and regulations that we identified may result in material misstatements in the financial statements.

Compliance with Laws and Regulations. We tested compliance with material provisions of laws and regulations, such as the Arms Export Control Act, the Federal Managers' Financial Integrity Act, the CFO Act of 1990, and DoD Financial Management Regulations, as they pertain to the accuracy of the financial statements. Compliance issues identified during our review may have a material impact on the financial statements. Those issues pertain to accounting for the Foreign Military Sales Trust Fund revenues and expenses, managing funds disbursed, recording and reporting accounts payable, and implementing the Management Control Program.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Appendix E. Conditions Identified in Audit Report No. 96-187 and Current Status

FMS Trust Fund (Account 8242)

Prior Audit Recommendation FY 1995

Current Status FY 1996

Finding A

Recommendation A.1.a. The OUSD(Comptroller) was to change DoD Financial Regulation, volume 15, to require recognition of accounting for revenues and expenses of the FMS Trust Fund, or obtain a waiver from compliance with OMB Bulletin No. 94-01.

Open Action. OUSD(Comptroller) has not changed policy for recognition nor has OUSD(Comptroller) requested a waiver from OMB for reporting revenues and expenses.

Recommendation A.1.b. The OUSD(Comptroller) was to change DoD Financial Regulation, volume 15, to require recognition and reporting of the U.S. Government equity in the attrition surcharge fund balance as a footnote to the financial statements, in a separate fund, or by other means of disclosure.

Open Action. OUSD(Comptroller) has not changed policy for recognition and reporting of the attrition surcharge. U.S. Government equity was not disclosed in the FMS Trust Fund 1996 financial statements.

Recommendation A.2. The Director, DFAS-Denver, was to analyze the surcharge subsidiary ledgers in the unearned revenue-advance from public account to recommend to the DSAA rate changes and redistribution of surcharge account balances.

Action Completed. That function was reassigned to DSAA.

Recommendation A.3. The Director, DSAA, was to adjust and redistribute the surcharge account balances annually in coordination with the OUSD(Comptroller) and the Chief Financial Officer, using the actual surcharge data and analyses performed by the DFAS-Denver to ensure the FMS Trust Fund operates at no cost or profit to the U.S. Government.

Action Completed. DSAA assumed the analyses function and monitors the surcharge account balances and annually reviews the rates for recommended rate adjustments or account balance redistribution.

FMS Trust Fund (Account 8242)

Prior Audit Recommendation FY 1995

Current Status FY 1996

Finding B

Recommendation B.1.a. The Director, DFAS-Denver, was to modify applicable sub-systems of DIFS to retain the disbursement numbers and disbursement day that are transmitted to the DFAS-Denver by disbursing stations.

Open Action. DFAS-Denver has made system change requests for Central Procurement Accounting System and Case Management Control System to include the disbursement numbers and disbursement day.

Recommendation B.1.b. The Director, DFAS-Denver, was to establish management controls to ensure that the DFAS-Denver identify the agencies causing the undistributed disbursements, follow up with those agencies to resolve the amounts in suspense, and implement guidance in memorandum of the OUSD(Comptroller) "DoD Accounting Policy and Procedures for Researching and Correcting Unmatched Disbursements and Negative Unliquidated Obligation Transactions."

Open Action. DFAS Headquarters provided disbursing stations with policy requiring disbursing officers to reconcile, on a monthly basis, expenditure authority requests for FMS transactions. As of January 24, 1997, disbursing officers were working the issue, and had not submitted the required reconciliation statements. Additionally, DFAS-Denver initiated system change to research and delete duplicate unmatched disbursements.

Recommendation B.2. The Director, DFAS Headquarters was to establish management controls to ensure that disbursing stations identify a valid FMS country, case or surcharge account before processing a disbursement to the FMS Trust Fund.

Open Action. DFAS Headquarters issued guidance to all disbursing station requiring that FMS country, case, and line, be identified when making disbursements against the FMS Trust Fund. However, DFAS has not monitored the implementation of that guidance.

Recommendation B.3. The Director, DSAA, was to establish a time phased plan to resolve undistributed disbursements.

Open Action. DSAA had not established time phased plans to resolve undistributed disbursements.

FMS Trust Fund (Account 8242)

Prior Audit Recommendation FY 1995

Current Status FY 1996

Finding C

Recommendation C.1. The Assistant Secretary of the Navy (Financial Management and Comptroller) was to report to the DFAS-Denver, the Navy's FMS accounts payable applicable to transactions with Federal (governmental) entities, and transactions with non-Federal (governmental) entities, in compliance with DoD Financial Regulation, volume 15.

Recommendation C.2.a. The Director, DFAS-Denver, was to report the Navy accounts payable in the DIFS, and in the financial statements.

Recommendation C.2.b. The Director, DFAS-Denver, was to maintain a subsidiary ledger for the accounts payable to allow identification and testing of audit trails, as required by DoD Financial Regulation, volume 15.

Recommendation C.2.c. The Director, DFAS-Denver, was to request accounts payable aging lists by vendor from those DoD organizations implementing letters of offer and acceptance, summarize those lists at the FMS Trust Fund level, and perform needed analysis to ensure fulfillment of the task assigned by DoD Financial Regulation, volume 15.

Open Action. Navy accounts payable are to be reported in FY 1997. Navy accounting system to be changed to report Navy accounts payable.

Open Action. The Navy system managers had not completely modified the accounting systems to segregate FMS accounts payable from the U.S. Navy accounts payable. For the FY 1996 financial statements, DFAS-Denver estimated Navy accounts payable and reported that estimate as a footnote in the statements.

Open Action. DFAS-Denver was not able to retrieve a listing of the subsidiary ledgers from the DIFS in time for testing.

Action Completed. DoD Financial Regulation, volume 15, was changed requiring the implementing agencies to maintain accounts payable aging lists by vendor.

FMS Trust Fund (Account 8242)

Prior Audit Recommendation FY 1995

Current Status FY 1996

Finding C (cont'd)

Recommendation C.2.d. The Director, DFAS-Denver, was to reconcile accounts payable balances with the supporting documentation or subsidiary records before the preparation of the trial balance as required by DoD Financial Regulation, volume 15.

Open Action. DFAS-Denver could not generate a report for reconciliation.

Recommendation C.2.e. The Director, DFAS-Denver, was to implement the DoD Financial Regulation, volume 15, requirement that subsidiary ledgers be maintained and reconciled monthly for the unearned revenue-advances from public-other non-Federal (governmental) liabilities account.

Open Action. OUSD(Comptroller) has not provided guidance to recognize revenues and expenses. DFAS-Denver has not taken action to establish subsidiary accounts because policy for the recognition of revenues and expenses does not exist.

Recommendation C.2.f. The Director, DFAS-Denver, was to establish procedures at the DFAS-Denver to properly accrue the anticipated expenses attributable to the accounts payable at the end of each month.

Action completed. DFAS-Denver accrued estimated expenses.

Appendix E. Conditions Identified in Audit Report No. 96-187 and Current Status

FMS Trust Fund (Account 8242)

Prior Audit Recommendation FY 1995

Current Status FY 1996

Finding D

Recommendation D.1. The Director, DFAS-Denver was to review the accounts receivable - transactions with non-Federal (governmental) entities subsidiary balances periodically, as required by DoD Financial Regulation, volume 15, to ensure net overcollections from customers are reported as a liability of the FMS Trust Fund at the general ledger level.

Action completed. DFAS-Denver is reporting overcollections as a liability.

Recommendation D.2. The Director, DFAS-Denver was to implement DoD Financial Regulation, volume 15, requirement to age accounts receivable.

Action completed. Policy change clarified the aging criteria.

FMS Trust Fund (Account 8242)

Prior Audit Recommendation FY 1995

Current Status FY 1996

Finding E

Recommendation E.1. The Director, DFAS-Denver, was to establish control procedures to limit the number of programmers at the Financial System Activity, Denver, with access to the production version of the application software of the financial management ledger, to the minimum number needed to service the software as required by DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988.

Action completed. DFAS-Denver provided policy to control personnel access. DFAS-Denver removed access to the production version of the application software of the financial management ledger for unapproved personnel.

Recommendation E.2. The Director, DFAS-Denver, was to establish control procedures to ensure implementation of Departmental Operating Instruction 177-39, "Suspended Disbursement, Budget, Performance, and Notification Transactions," March 4, 1992, to monitor lists of suspended transactions and contact and follow up on actions by DoD implementing agencies to clear performance transactions rejected by the Positive Transaction Control subsystem of DIFS.

Action completed. DFAS-Denver resolved all performance rejection transactions that were more than 60 days old. DFAS-Denver establish and implemented control procedures to monitor and follow up transactions rejected by the Positive Transaction Control subsystem of DIFS.

Appendix F. List of Laws and Regulations Reviewed

Laws and regulations affecting the operations of the military assistance program are numerous. We used the following laws and regulations in compliance testing of the DSAA consolidated financial statements.

- o United States Code, title 31, section 3512 (formerly the Federal Managers' Financial Integrity Act of 1982, Public Law 97-225)
- o Arms Export Control Act, as amended, Public Law 90-629
- o Chief Financial Officers Act of 1990, Public Law 101-576
- o OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993
- o OMB Statement of Federal Financial Accounting Standards Number 2, "Accounting for Direct Loans and Loan Guarantees," August 23, 1993
- o OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993
- o General Accounting Office, "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2, "Accounting," August 31, 1987
- o "DoD Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity," October, 1996
- o DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, revised August 26, 1996
- o DoD Directive 5010.40, "Management Control Program Procedures," August 28, 1996
- o DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988
- o DoD Financial Management Regulation 7000.14, volume 1, "General Financial Management Information, Systems, and Requirements," May 1993
- o DoD Financial Management Regulation 7000.14, volume 4, "Accounting Policy and Procedures," January 1995
- o DoD Financial Management Regulation 7000.14, volume 5, "Disbursing Policy and Procedures," December 1993, revised May 1996

Appendix F. List of Laws and Regulations Reviewed

- o DoD Financial Management Regulation 7000.14, volume 15, "Security Assistance Policy and Procedures," March 1993
- o DoD Manual 5105.38-M, "Security Assistance Management Manual," October 1988, as amended
- o Memorandum of the OUSD(Comptroller), "DoD Accounting Policy and Procedures for Researching and Correcting Unmatched Disbursements and Negative Unliquidated Obligation Transactions," June 1995
- o DFAS Regulation 5010.38-R, "Internal Management Control Program," February 1993

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller) and Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director for Accounting Policy
Assistant Secretary of Defense for International Security Affairs
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service-Denver Center
Director, Defense Logistics Agency
Director, Defense Security Assistance Agency

Other Defense Organizations (cont'd.)

Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center
Department of Education, Office of the Inspector General

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

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